97-84034-26

Winn, Henry

The transfer of taxes from money-lenders to...

Boston

1884

97-84034-26
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

308
Z
Box 107
Winn, Henry, 1834-1916.
The transfer of taxes from money-lenders to business and labor; an argument by Henry Winn before the Committee on taxation of the Massachusetts legislature of 1884. Boston, Franklin press, 1884.
47 p. 23½ cm.

RESTRICTIONS ON USE: *Reproductions may not be made without permission from Columbia University Libraries.*

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-3-97 INITIALS: PB

TRACKING # : 22334

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

F. A. Geddings Esq
Compliments of H. Winn

Box

THE TRANSFER OF TAXES FROM MONEY-LENDERS TO BUSINESS AND LABOR.

Box

308
Z
Box 107

AN

ARGUMENT BY HENRY WINN

BEFORE THE

COMMITTEE ON TAXATION

OF THE

MASSACHUSETTS LEGISLATURE OF 1884.

BOSTON:
FRANKLIN PRESS: RAND, AVERY, & COMPANY.
1884.

THE TRANSFER OF TAXES FROM MONEY-LENDERS TO BUSINESS AND LABOR.

AN

ARGUMENT BY HENRY WINN

BEFORE THE

COMMITTEE ON TAXATION

OF THE

MASSACHUSETTS LEGISLATURE OF 1884.

BOSTON:
FRANKLIN PRESS: RAND, AVERY, & COMPANY.
1884.

ADDRESS.

Mr. Chairman and Gentlemen, — You have to consider the most important financial question which the General Court has decided in the century — the question whether the tax-payers of this Commonwealth shall be burdened to make up, in coming years, the subsidy of annual millions provided for money-lenders by the Act of 1881, through the exemption of their mortgage loans. No person denies the imposition of the burden, — no person denies the receipt of the subsidy; but the recipients plead that they consume it in reducing their interest-rates to borrowers of money, and that this is a sufficient justification for its exaction from the people of Massachusetts.

No person will deny that when great sums are paid to individuals to disburse as almoners or agents, that the burden of proof is upon them to show the application of the funds to their intended purpose. I beg you will remember, therefore, that it is not incumbent on me to show that these moneys are misapplied before asking the repeal of this law. You stand as auditors of the Commonwealth to whom they make their account, and if they cannot prove to you affirmatively that the contributions allowed to them from the treasuries of the people are substantially all applied for the benefit of the doubly-taxed debtor, as they were intended, then you ought to cut off this subsidy with remorseless hand.

Double Taxation.

Let us arrive at the question. So much has been said about double taxation, — in fact, it was the false pretence on which this law passed, — that we cannot fairly proceed without defining its relations to the subject of our discussion. For centuries prior to 1881, in this State, capitalists were taxed on their money, or, more accurately speaking, their capital at interest. Under the general principle that a State cannot safely forego the taxation of its own territory, all land was taxed. All tangible personal property was also taxed. This condition brought one hardship. When a man owning taxed property owed a balance of debt, he was compelled to pay part of the income of the taxed property to his creditor as interest, and yet compelled also to pay full taxes on it. This is the length and breadth of the hardship called double taxation.

It is error to say that the borrower paid the tax on the land and then a tax on the money in any sense which implies that the hardship is other than I have stated. When a man buys land for a note, the note, with its nature, principal and interest, is the precise equivalent of the land, just as a mill would be, if he had that to give. He no more pays the seller's tax on the note than he would pay the taxes on the mill forever after, — and only in the same sense that you pay taxes on the farmer's land when you buy corn. He pays for the use of money as you pay for corn. In the same sense the seller pays the taxes forever on the doubly-taxed borrower's land because he cannot get so much of a note as he could if the farm bore no taxes. Each pays his own taxes out of his own profits.

Let us illustrate the so-called double taxation by the severest case. Rogers, in 1880, owned a farm worth $10,000 free of debt. Suppose he paid taxes at the average Massachusetts tax-rate for 1882, which was $15.28. His taxes were $152.80. Robinson owned nothing, paid no taxes. Then Rogers sold to Robinson, getting Robinson's note $10,000. At the next levy Rogers is held to pay taxes $152.80 on the note, Robinson $152.80 on the land. They do not pay quite this, however, for there is $10,000 more property taxed in the town, and, consequently, with the same tax levy, the rate will be a little less.

Now who bears this hardship? Plainly, Robinson. For Rogers has a property precisely as good to him, all things considered, as the farm, else he would not have traded the farm for the note. But he pays somewhat less tax, as I have shown, than before. He therefore has no hardship. But Robinson pays a tax on the land, yet pays part of its income to another. That is what people call the double tax. Here we reach the first important fact; viz.,

1. *The money-lender does not pay a mill of double tax, the debtor pays it all.*

So every man with taxable tangible property who owes a debt is doubly taxed. So notes and bonds of all kinds represent men behind them with this hardship. This law is but the first step in the scheme of exempting all credits, and reducing all taxation to tangible property.

But, as Walker has shown in his "Science of Wealth," this tax was not double. The new tax paid in the case of the sale to Robinson reduced the tax of every man in town. So every like tax reduced his. One-third and over of the real estate is mortgaged. Except for dodging, the double tax would be very much lightened by taxing these credits. As it is, however, Mr. Gleason, the present State Treasurer, showed in a careful article, published in "The Herald," March 6, 1880, that almost precisely one-third of the taxed property of the State was credits. The least effort would largely increase the proportion, for it is credit property which escapes.

Assuming therefore — and it is near enough for a general estimate — that credits paid one-third our taxes. Robinson only paid two-thirds of a double tax, or, more accurately, two-thirds of a full tax on property partially barren to him, because part of its fruits go to another. What the theorists stigmatize as the double taxation system has paid the rest by imposing taxes on credits.

Now if credits paid one-third the taxes, which at the passage of this law was substantially the case, the situation in Massachusetts may be represented by supposing a community of three persons Smith, Rogers, and Robinson, under different phases of taxation, raising annually a constant sum, say $458.40, Smith beginning with $10,000 tangible property, land and personal unincumbered, Rogers with $10,000 in land, and Robinson with nothing. We begin then with a simple

TANGIBLE PROPERTY BASIS.

	Property.	Character of Property.	Tax.	Tax-Rate.
Smith .	$10,000 00	Unincumbered tangible . . .	$229 20	$22 92
Rogers .	10,000 00	Land . . .	229 20	22 92
Robinson .	None.	– –	None.	–
Totals .	$20,000 00	– –	$458 40	–

Now suppose our ancient system of taxing credits, to come in by a sale of Rogers' land to Robinson for a note which is afterwards taxed. We have then the

MASSACHUSETTS SYSTEM.

	Property.	Character.	Tax.	Tax-Rate.
Smith .	$10,000 00	Unincumbered tangible . . .	$152 80	$15 28
Rogers .	10,000 00	Note or credit .	152 80	15 28
Robinson .	10,000 00	Land mortgaged .	152 80	15 28
Totals .	$30,000 00	– –	$458 40	–

This is Massachusetts in miniature. This law alone excepted, observe that it is the condition of Massachusetts tax-payers in 1882, with credit property paying one-third the taxes, and with the tax rate of that year which was $15.28. Note particularly that Robinson pays no double tax, which on a tangible property basis would be $229.20, but only $152.80, which is two-thirds of one. The Massachusetts system has reduced double taxation one-third by levying a tax on credits. Now adopt the "reform" system of exempting credits, which is

MONEY LENDERS' EXEMPTION SYSTEM.

	Property.	Character.	Tax.	Tax-Rate.
Smith .	$10,000 00	Unincumbered tangible . . .	$229 20	$22 92
Rogers .	–	Note not valued .	None.	–
Robinson .	10,000 00	Land mortgaged .	229 20	22 92
Totals .	$20,000 00	– –	$458 40	–

These tables are very instructive. Observe that this "reform" will create an average Massachusetts tax-rate of $22.92, or over two and a quarter per cent.

The rate would increase much more than this, because real estate would decline, and there would be less property to tax.

Observe that the change increases Robinson's tax, which was the only double tax, — $76.40; that is, the "reform" absolutely increases double taxation, fifty per cent.

Further: that $76.40, which is the increase of Robinson's double taxation, is three-fourths per cent on his $10,000 note; that is, under the "reform," Rogers must reduce his interest-rate three-fourths per cent before double taxation will be "relieved" down to the point it stood at under the old system.

You know this reform, as a pretended scheme to "relieve double taxation" by exempting the money-lender Rogers, hoping that Rogers will transfer his exemption to Robinson by reducing his interest-charge on that note, and thereby relieve Robinson's tax, which is the double one. Mark in these figures the total effect possible in relieving double taxation if the scheme is perfectly successful. Nobody — not even the most persistent advocate of the reform — is fool enough to believe that Rogers will give Robinson, in discount from his interest, more than he gets himself in exemption: he gets $152.80. Giving it all will reduce Robinson's double tax from $229.20 to $76.40; and that is one-third of a double tax.

The maximum effect of the "reform," then, if the scheme could perfectly succeed, would be to relieve double taxation, so as to reduce it by one-third of a double tax lower than it was before. Observe that, if Rogers makes over half his exemption — $76.40 — to Robinson, the double tax stands precisely as it did before. If the scheme, therefore, is half successful, it leaves double taxation just as it was before, putting $76.40 into the money-lender's pocket by increasing the tax of the community at large (Smith) to that amount.

When, now, I shall prove to you, as I think I can, that, under the inflexible rules of political economy, the money-lenders do not and will not reduce in any material degree their interest-charges to the doubly-taxed borrower, but pocket the subsidy, and leave a heavy net increase of double taxation as the result of this "reform," you can understand the true inwardness of the hollow clamor against

"double taxation," which the theorists and newspapers who write in the interest of money-lenders din into the public ear. You can never cure double taxation by exempting the wrong man.

Let us preserve the points the illustrations prove, viz.: —

2. *The exemption of credits now partially entered upon will, when consummate, increase the taxes of every farmer, merchant, and manufacturer, who does not get some share of the plunder in the capacity of money-lender, by fifty per cent, and raise the average tax-rate above two and one-fourth.*

3. *It increases double taxation fifty per cent, and if unsuccessful, affords no compensation for the increase.*

4. *If entirely successful in causing the money-lender to transfer his whole exemption to his debtor, it can, by the process of compensation, reduce double taxation only one-third of a double tax lower than it was before, leaving the debtor incompensable by it for half his double taxation.*

5. *If half successful, it leaves the double taxation without compensation precisely as it was before.*

6. *Under it the money-lender must reduce his interest charge three-fourths per cent before double taxation can be reduced a mill.*

7. *The old system reduced double taxation one-third.*

The illustration I have cited shows the situation in Massachusetts when the general exemption of credits now begun shall be completed. This is the only fair way to reason. When the traveller enters upon the first step of his chosen route, it is time to consider the dangerous passes and swollen streams of its later course. No man believes that the exemption can stop with mortgage loans. It is rascally to exempt the man who lends on land, and continue to tax the man who lends on a stock of goods, or on a poor man's cow. It is worse yet, to tax the cow to pay the bribe given to induce the man who lends on her, to withdraw his loan from her owner, and put it on land. For example, how are you going to continue your tax on sixty-three millions of money at interest yet taxed, or twenty-two millions of taxable deposits? And after that, how on ninety-six millions of bank stock, which the United States law forbids you to tax more than other moneyed capital? Will you exempt a man having for his loan the certain security of land, and tax another having no security at all? If you persist in the notion, that exemption of lenders relieves double taxation of borrowers, is not the solvent man who borrows giving his note just as much doubly taxed as if he gave a mortgage deed in addition, and just as much entitled to your favor? You must go back or go on, and consequently I say a refusal to repeal this law involves a tax-rate in Massachusetts fifty per cent higher, — an increase of fifty per cent in double taxation.

What I have said, applies perfectly to the exemption of mortgage loans, — only the effect is not so extensive. The tax-payers may better face this question at once than piecemeal. Their taxes are now at war rates, being largely increased by this exemption. The law of 1881, as the Committee on Taxation last year reported, has increased the average tax-rate $1.06 per thousand, and it has of course increased double taxation by the same amount.

Double Taxation no Ground for Subsidizing Lenders.

It is plain, the money-lender paid no double tax, — it cost him no time or labor to reduce his interest-rate, and he earns no commission thereby. He therefore deserves not a penny of the great subsidy we have given him. Now, suppose that true which is not, — suppose the money-lender did reduce in some considerable degree his interest charge on account of this law, — say, by half the amount of the tax remitted to him. Is the double tax I have described a sufficient hardship to require the community to make great sacrifices for its cure beyond the amount actually applied to its relief, — to pay for instance, two dollars to the money-lender, allowing him wrongfully to pocket one to get the other to the debtor?

We have in Robinson the worst case of double taxation, — where a man worth nothing buys property fully taxed entirely on credit. Generally, loans cover only a small part of a man's property. They are made voluntarily for profit. Robinson saw some gain in buying that farm, double tax and all, or he would not have bought. And the reason that purchasers on credit, like him, could buy and assume the fractional part of a tax on property partially barren to them, which I call the double tax, because it has acquired that popular name, is because the interest-rate, except in crises, is always less than the average income of tangible property. A great amount of property is owned by persons who are disinclined to, or disabled for, business. The principal part is in the hands of the wealthy, whose accumulations put them beyond the need of work. But various classes are represented. These persons are willing to take a less income for their farms and other business property than an efficient man can make from them by employing them. For the element of certainty also, they are willing to pay largely beyond the absolute cost of the risk. They realize the equivalent of the difference in the advantages which annuitants enjoy. Independent therefore, of a foreign supply of loanable capital, there is a margin for purchasers on credit, between the income of the tangible property bought and the interest-rate they pay, which meets or reduces the partial double tax assumed. But when an unlimited foreign supply from countries where the income of tangible property is still lower enters to reduce the rate, the double tax is not felt.

The double tax itself was not, as many people believe, based on nothing, any more than our tax on incomes which is not based on existing property. If Smith's property had been gold ingots and he had bought the land, Rogers would have assumed the taxes on the ingots and they would have paid for their protection. But Robinson, unfortunately, had not the gold and wanted the farm just as if he could pay for it. To accommodate Robinson, therefore, a new class of property was created in Rogers' hands called a contract. Now the functions of government for which taxes are laid are just as much exercised to protect and define the new property as the gold bars. And a great deal more so. Because the gold bars needed no legal construction. Rogers only needed a policeman to protect them. But Rogers requires for the contract not only a policeman to protect — but (since debtors sometimes evade payment), a legislature to pass laws concerning contracts and

their enforcement — a court to construe — and a sheriff to collect. Anybody can see that the functions of government are just as much exercised relative to the land as before. All this machinery has been set in operation in Robinson's behalf to accommodate him because he did not happen to have the gold or other commodity with which to pay Rogers. A moment's thought will show that a very large part of the expenses of government are incurred in construing and enforcing contracts of various kinds as well as in the protection of notes and bonds, the punishment of forgeries, etc., — that is on matters connected with credit property, — simply to accommodate Robinson and others like him who wanted property but could not bring the gold to pay for it. Community get no compensation for all this expense except through this double tax. Our fathers did not look simply at Robinson and say, — Lo this poor fellow! what is he paying a tax on that farm for, when he does not really own it, but is badly in debt? but they looked on both sides of the question, — they looked at the state-house, the court-house, and the body of police, and remembered that they were largely occupied at public expense to enable him to hold that farm without paying for it; they remembered, too, that Robinson was not a fool but was making a profit out of the operation, taxes and all, or he would not have bought that farm. They saw that the hardship was not severe, that he paid only a fraction of a double tax at worst, — that he voluntarily assumed it for profit, — that doubly-taxed borrowers prospered more under our system of taxation than in any other State.

Now I am not here to quarrel with this modern notion — so harped upon by money-lenders seeking this subsidy, — that community ought to furnish this machinery of government to accommodate the debtor class for nothing. I cite these facts simply to insist that community is not held to any sacrifices in this matter — is not bound to give two dollars, or ten cents, to get one dollar to the debtor — that since it costs the creditor no pains to reduce his rate, you have no right on this plea to subsidize him at the expense of the public unless it appears that he pays over every mill of the subsidy to the debtor. Exempt the land if you will, pay the debtor a rebate from the treasury, but do not link your subsidy in any way with the creditor so that it shall cost the public except for just what goes to the debtor. In short, —

8. *No sum should be voted to money-lenders in exemption, of which any considerable fraction is to remain in their pockets.*

This law simply exempts the money-lender from taxation. It does not relieve the debtor from any tax, or in any way reduce his partial double tax, but increases it. Therefore it does nothing to relieve double taxation, except by what the creditor reduces his interest charge on account of the law. It is an act through which the public give a subsidy of one and a half per cent to him to be given over by him to his debtor. If he lets his money to his debtor for just what it is worth, he gives the debtor nothing. He must let his money for one and a half per cent less than that money is worth, in equivalent loans, or he pockets public money. And now, another element enters. All interest-rates have declined independently of the law. Money invested in Boston and Albany

sevens realizes five-eighths per cent less interest than in 1880, just before this law passed. The rate on mortgages themselves fell about two per cent under taxation before the law passed. All other securities continuing to decline under taxation, of course mortgage-rates have declined independently of the law. Suppose this decline has been one half per cent since its passage. Ought this decline from natural causes to be counted to the credit of money-lenders as paid by them in relief of double taxation? The question almost answers itself. Did not the capitalists and their newspapers so persistently clamor that the law has justified itself, because the interest-rate has fallen, without discriminating between the fall from natural causes, and the fall (if any,) on account of this law, the point would not deserve notice. It must be remembered that if the absolute value of the use of Rogers' money has declined, it is no reason why Rogers' tax should be less. Who ever thought of exempting a farmer because his income was less in some particular year, on account of winter-killed grass, or a manufacturer because his trade was bad? Rogers owes the State one and a half per cent without discounts, notwithstanding the value of the use of his capital is one half per cent less. The State gives him this one and a half per cent for Robinson. He cannot give it to Robinson unless he lets his money one and a half per cent less than it is worth in equivalent loans; and, if it is worth one half per cent less than in 1880, then he cannot give that one and a half per cent to Robinson unless he lets his money two per cent less to him than he did in 1880, — that is cheaper by the tax, plus the natural decline. Robinson's double tax is no less because interest has declined — it has increased. He can meet it easier because he pays less interest, just as he could if the price of fertilizers should come down. But the money-lender and the law deserve credit for reducing his rate by the natural decline, no more than any huckster who cheapens his wares because the market is down, deserves to be called a public benefactor. I have shown that the law increased the double tax, an amount which the Committee last year put at 1.06 per thousand dollars. The money-lender must also reduce his rate of interest this much before he can begin to reduce double taxation at all by compensation. Rogers, or more accurately Rogers and Smith equally, ought to subscribe this much reduction besides the one and a half, and the natural decline, to make the law effective for its purpose. We find then,

9. *That the law should be repealed (if for no other cause), unless it appears that the money-lenders have reduced their interest charges by the amount of the full tax remitted to them, plus the amount of the general decline in the use of money, plus fifty-three cents per thousand dollars, or one-twentieth of one per cent more.*

The Law a Simple Exemption of Mortgage Loans.

I have treated this law thus far as if it simply exempted mortgage loans. That is its exact effect, although it wears the fraudulent face of requiring the money-lender to pay the debtor's taxes on his mortgaged land. No man has pretended before you that it has any other effect. No assessor, no attorney, no advocate of

the law, so far as I can find, has ever heard of a case where a mortgage has been made since the law in which the lender failed to require, by written covenant, his debtor to pay all the land taxes, and thereby to take the exemption on his note to himself. A few were caught by the law who held old-fashioned time mortgages, which had no clause requiring the debtor to keep the creditor free from taxes on the land. I procured the data from seven towns at random, — North Adams, Greenfield, Ashfield, Orange, Charlemont, Erving, and Shelburne, having eight and a quarter millions of real estate, and, at the usual average, three millions of mortgages. I found taxes paid by mortgagees on $12,725 worth of land, all, so far as I could learn, cases of old time-mortgages. That is, less than one two hundred and twentieth part of the tax on mortgaged land was paid by the creditor, and in new cases nothing. In five of these towns, reporting their taxed "*money at interest secured by mortgage,*" I found about one-fifth of the amount to be taxed mortgagees' interests; part of the amount I have stated. They will soon disappear. The assessors should not have entered them in this column, for they are by law real estate. It is plain then that,

10. *The law is simply an act exempting money-lenders on their mortgage-loans.*

Would a General Exemption of Credits Reduce Interest Rates?

We reach a vital point of the discussion: — Will exemption induce the lender to reduce his interest charge by the amount remitted in taxes? Have lenders since this act reduced their rates by that amount plus the amount of the general decline in the interest rate.

The proposition generally urged in the affirmative is this: —

"A man who has got money is going to have about so much for it. Of course he can afford to lend for less if he does not pay the tax, and if you take it off he will lend for that much less. A money-lender always has the advantage, and if he has to pay a tax will take it out by increasing his interest-rate that much."

This hallucination has been drummed into the public ear so long by that part of the press which, from prejudice or lack of examination, write in the interest of capital, that many really believe it. The reason it gains a foothold is because many people see impecunious borrowers, unable to give security, offering any thing for loans. The public do not go behind bank counters and see the idle millions paying nothing unless invested. The case is entirely different where the sound security of a mortgage is given. Even to the impecunious the money-lenders charge hardly enough to leave them the general average of profit after deducting losses. The lender has no such control of the price of his commodity as the proposition implies. If so, why does he stop at six per cent? Why not exact twenty? Is it because he does not like money? If the proposition is true, what consummate fools manage institutions like the Provident Savings, who have just lent Boston $950,000 for thirty years, at about three and three-eighths per

cent — a loan on which they pay one-half per cent tax, leaving them a net two and seven-eighths. Why are not some of these theorists put in charge, who would have used the advantage which money-lenders have to get eight or ten per cent as their fancy pleased them?

A simple illustration will expose this folly in a case like this where only a local tax is referred to. Interest is the income of loanable capital, as profit is the income of the boot-maker. Its price, like that of boots, is governed by the supply and demand. Twenty thousand dollars gold has no advantage over twenty thousand dollars' worth of boots, for the boots will bring the gold in twenty seconds at the market. Now, suppose the tax of a Massachusetts boot-maker amounted to one dollar on each pair of fine boots. You exempt him to cheapen boots. The freight of boots to New-York City is a quarter of a cent per pair. The price in New York when you took off the tax was, therefore, within a quarter of a cent of the price in Boston. You will not reduce the price of boots a cent by your dollar exemption, till you shoe the natives of Cathay. Add a tax of a dollar per pair. Before the maker can increase the price of boots five cents a pair, Boston shall have no trade but in New-York boots. You may, by a discriminating tax, drive boot-making out of Massachusetts; but it is beyond your power to raise or lower the price of boots, except as you raise or lower it through the world, except in the narrow margin of the cost of freight. So by a general exemption of money-lenders, you can only affect the interest-rate within the narrow margin of what I have called the co-efficient of inertia of capital, — that is, the cost of exchange, of proving to the foreign lender the nature of the risk you ask him to take when he invests here, and minor details. This corresponds to the quarter of a cent transportation, which was the co-efficient of inertia in that case. You cannot change the price of the use of money by even that margin, owing to another principle which I will state later.

I say the interest-rate is controlled by causes outside Massachusetts, by the supply and demand the world over — there is free trade in money — your tax covers scarcely a five-hundredth part of the supply, and does not at all affect the demand; and you can no more by a general exemption of credits cheapen interest-rates to the amount of the tax you remit, and thereby relieve double taxation fifty per cent, than you can reduce the level of Boston harbor six feet with a Knowles pump. You may reduce the water some, and you can reduce the interest-rate in a proportion hardly more appreciable by such an exemption. Your subsidy goes into the pockets of money-lenders, and the only thing you can accomplish by it is to increase double taxation and other tax-rates fifty per cent.

The attempt reminds one of the case cited by General Walker in his Political Economy, illustrating the folly, under Ricardo's Law of Rent, of trying to lower the price of bread by reducing the rent of land. Let me substitute in your minds Massachusetts for the philanthropic gentleman, taxes for rent, and money-lenders for those selling grain.

"Let us suppose that a philanthropic gentleman (*Massachusetts*)

whose rent-roll (*taxes*) is twenty thousand pounds, being greatly moved by tales of distress (*told by money-lenders*), knowing that the quartern loaf is very dear, calls his tenants together and tells them that, in consideration of the hard times and the great suffering of the poor, he has determined to remit one-half of the rent (*taxes*) of all his farms, so that the farmers may be enabled to sell wheat at a lower price, and thus the poor be enabled to buy bread at a cheaper rate. What would be the consequence? Doubtless all the tenants (*lenders*) would accept the proffered terms cheerfully, and humbly thank his honor. But would they sell the wheat (*use of money*) at any lower price? Not at all, why should they? They can get the market price for it, and that price is not fixed by the cost of raising wheat on their farms, or on any farms for which rent is paid. It is the no-rent land that raises that last portion of the necessary supply of wheat which fixes the price of all wheat.

But suppose, to imagine a most improbable case, that some one out of the fifty tenants on this estate were to go to the dealer in grain to whom he was accustomed to sell his crop, and say, "Mr. B——, inasmuch as my landlord has remitted half my rent this year, I offer you my wheat a shilling less a bushel, in order that you may sell it at a corresponding reduction to the baker." What would the grain-dealer do? Clearly he would take the wheat at the reduced price offered. But would he sell it to the baker for any less? And, if two such fools were found in succession, would the baker, getting his flour a shilling "off," put down the price of the loaf? Not if he were of the sort of baker (*lender*) that you and I know." (Page 212.)

In short, the claim that the money-lender will reduce his charges because he can afford to do so, because he can make more money after he is exempted, is utterly fallacious. He is going to get what the market will give him. He is of no different mould from the farmer or merchant, and will no more cheapen his interest-charge because the State gives him a subsidy than a farmer will sell butter cheaper because his father has given him a cow. The only thing that can cause either party to reduce his price is the appearance of somebody else with money to lend or butter to dispose of at such rates that he fears he will lose his sale; or a disinclination in the purchaser, a reduced demand. The only potent influence on the money-lender to bring down his rates is a reduced demand or an increased supply.

This law does not reduce the demand. The only effect can be to increase the supply. Now, it will be readily admitted that this law does not create new capital to constitute a supply. It can only act, if at all, by attraction, — by its power to attract additional capital into mortgages. How far can its attraction extend? Plainly, only to the other taxed property of Massachusetts.

Note here an essentially vicious principle of the law. There is no attraction unless there is a profit to be made. We have seen that the lender cannot compensate the borrower for paying a double tax, except by lending to him at less than money is worth. The bid to new capital to change its form into mortgages is exemption, — one and a half per cent. But there is no attraction in a one and a half per cent subsidy to induce a capitalist to withdraw his

capital from other investment, and lend it at one and a half per cent less than it is worth. Capital, by a law of its nature, has a certain co-efficient of inertia. Concretely stated, if A is lending to B at five per cent, there is a tendency in the loan to stay there. C must bid, say a quarter advance, to induce A to inquire into his solvency and change; and if B needs the money, he will counter-bid. Now, the law must offer enough attraction to C to counter-vail these resistant influences, and give him a profit besides, before he will change. Suppose three-fourths per cent required to do this, A will then, for the bid of exemption reduce the mortgage interest-rate three-fourths per cent only: he must have the other three-fourths to himself. Now, we have seen, that under a general exemption of credits, a reduction of the mortgage interest-rate three-fourths per cent to the borrower would not reduce double taxation a mill; the borrower would not be a whit better off, because the new system would increase his tax that much. Suppose less than three-fourths per cent be required. (C must have *some* profit to change); and we have further seen that there is no justification in taxing a community for a subsidy to money-lenders, which is to stay in their pockets. We might stop here. This law cannot operate except by attraction to induce a new supply. There is no attraction without a subsidy to money-lenders, no justification for taxing the people to create such a subsidy; and the law is inevitably bad.

The Law more Effective on Mortgage Rates alone than if extended.

I have spoken thus far chiefly of a general exemption of credits, but I do not wish to ignore the question in its limitation to mortgage loans. It is true that when exemption is limited to mortgage loans made upon Massachusetts land, the exempted commodity cannot go out of the State to find a higher price in case of decline, as the boots did. It is also true that there is more tendency toward a reduction of the interest charge by competition when only one class of loans is selected for exemption; while, at the same time, all other similar capital is taxed. It is, as we shall see, far easier to induce a man who has got money to lend, to change his loan from personal security or from a chattel mortgage into a land mortgage, than it is to induce a man to sell his farm or his mill to become a money-lender. For this reason the exemption of mortgage loans only is far more potent to reduce their rate than the exemption of credits generally would be. And there is another reason. Inside the State the power of your subsidy to reduce rates on any species of loan in any degree is a question of proportion. The question is whether you have got enough assets in your class of taxed capital within your reach to draw from to accomplish your purpose. You might have enough for a small job. Thus we might admit that if you were to declare that all mortgages on the red horses owned in Massachusetts in 1880 should be exempt, you would cheapen somewhat the interest-rate of such mortgages. Or if you should exempt mortgages of Melrose land and tax mortgage loans made in every other town, rates in Melrose would go down

perceptibly. There would be enough taxed capital attracted to that pocket for exemption to cheapen the rate. The Melrose borrower would have to pay the lender out of the tax the co-efficient of inertia, — that is, the cost of inducing capital to change its investment, which I have described, — and a small profit besides. The capital leaving other towns to go to Melrose would leave a vacancy which must be filled; there would be an excess of demand there over supply, which would raise the rate. This slight increase of rate in or in addition to the co-efficient of inertia and the profit described would be exacted of the Melrose borrower and deducted from the tax, and he would profit by the law to the extent of the tax less those elements. Now, because you have limited your bounty to land-mortgage loans, I am free to admit that your influence on the rate ought to be very much greater than if you should extend your exemption to all credits, as you are bound to do. Let us remember this point.

11. *If the law can reduce interest-rates at all, it will reduce them much more on mortgage-loans simply, as the law now is, than if extended to a general exemption of credits — that is, the further you go in this reform the less you will reduce the interest-rate, the more you will increase double taxation, and the more your subsidy will approximate to a pure gift to the money-lenders.*

Mark, however, that I have not admitted that this law will cause more than an infinitesimal decline in the interest-rate of land mortgage loans. And the reason is that you do not command assets enough to accomplish your purpose. You have undertaken too much. You should have limited your exemption to loans on red horses, and in that case you would not probably have left their owners worse doubly taxed than before. The reason why the exemption of mortgage loans in Melrose would work a decline in the rate is obvious. It is because the tax extends over Massachusetts and attracts a large amount of capital foreign to Melrose to come in and increase the supply. The amount is great that seeks the pocket compared with its capacity. But the case is entirely different in Massachusetts at large. The law does not tempt any foreign supply because your tax reaches no foreign capital. There are doubtless four hundred and fifty millions of mortgages in Massachusetts. There is also a capacity to make eight hundred millions more mortgages, and then a capacity to increase the real estate by building, and make just as many more mortgages as you please, on all of which you have got to reduce the interest-rate one and one-half per cent below what money is worth to accomplish your purpose.

Now the proposition is to convey to the debtor through the lender one and one half per cent of remitted tax. To do this the lender must lend to the debtor for one and one-half per cent less than money is worth, for when a man pays what a commodity is worth he gets no advantage from the seller. Therefore, to accomplish its purpose, the law must reduce the general mortgage-rate in Massachusetts one and one-half per cent below what money is worth in equivalent loans, otherwise the lender will pocket it. How is this great feat to be accomplished? They tell us "that profits tend to equalize themselves, and money will flow from one

investment where profit is less, to another where profit is greater till there is an equilibrium. Hence, capital will flow into mortgages attracted by the exemption till it is no longer profitable to change, and that is the point where the rate is one and one-half per cent less than the rate of equivalent taxed loans."

This is one of those delightful generalizations with which the advocates of the law with a serene disregard of particulars love to beguile us. The law is true in its place. When Robert, the waterman, connects his empty cart with the city reservoir, the laws of gravity and fluidity will fill it — they are a perfect success. But when in a drought, with his full cart, he sees the reservoir empty, and bethinking himself of those beautiful laws says, "Lo! I will gladden the thirsty citizens by filling that reservoir from this cart;" his experience soon teaches him that it is a question of supply and demand. The limitations of this case are equally troublesome. The inquiries are: 1st, What capital will find more profit by going into mortgage loans, and have you a right to use it? 2d, How much attraction is required to make it flow? 3d, What is the vacancy you have to fill, and what ratio does the capital you can attract bear to the amount required to fill it?

The Supply.

Of the four hundred and fifty millions of Massachusetts mortgages the total tax collected we may roughly estimate as covering about a quarter at full rate, that is at 15.28 tax about $1,726,000 per annum, which is all the capital you have to accomplish your great purpose. The quarter per cent reduction to savings banks is general, and does not tend to your purpose, as I have shown. Instead of giving this capital to the borrowers directly, you give it to the money-lenders, and then watch to see how much will drip through their hands because they cannot hold it.

Remember, now, that your law does not add a dollar to the supply of Massachusetts capital. You can only reduce the mortgage-rate by attracting capital now in the State bearing our tax. Your sources of supply are twofold; first, tangible property, including real estate; secondly, credit property. Your bid to the first will be utterly ineffectual, your bid to the second is entirely illegitimate.

Tangible property is chiefly held for use. The personal skill of the owner is connected with its use. He cannot afford to change his property into notes, lose the value of his skill as a manufacturer or mechanic, or experience as a farmer, and live upon his interest-money. Tangible property kept for use is not attractable. Here is one of the iniquities of the law. No person is eligible to receive its subsidy till he becomes a lender on mortgage. The poor cannot enter that class. The legislature indeed says to them, the bid is open to you; all you have to do is to enter the moneyed classes. They cannot do it. You might as well subsidize millionaires and console the people at large by advising them all to become Vanderbilts and enjoy the public bounty.

But I am told the poor do become lenders in the capacity of savings-bank depositors. Savings banks get one half per cent in

exemption. They invest about one third of the poor man's deposit in mortgage-loans: they cannot invest more with safety. This gives the depositor one sixth per cent advantage if the law is all steal, and the subsidy all goes to the lender, as it probably does just one ninth part as much as the rich private lender gains on each dollar he lends. If you count the quarter per cent remitted on savings-bank deposits, he gets one sixth as much. If he works for hire he will find that the burden on his employer of paying the tax necessary to make up the rich man's subsidy, will cost him more in reduced wages than he can gain by the petty fraction of advantage he can make out of the public. Thus, from 1875 to 1880 the cost of stock used in manufacturing in this State increased 11.52 per cent relative to selling price. The extra expense was borne 7.17 per cent from the manufacturer's profits, 4.35 from reduction of wages.

Again, the average interest-rate for money is somewhat less than the net income of farms, mills, etc., because there is a class who desire to escape the burdens and risks of business and who are willing, for the ease and advantage, and certain income of annuitants, to accept a lower scale of profits. The small proportion of tangible property held for investment simply pays higher profits than the interest-rate, because the capital of the foreign lender does not go into it. That seeks certainty of return, it will not take the risks attendant on tangible property, and its owner cannot assume the care of tangible property. Naturally therefore, the interest-rate is less than the income of tangible property.

There is another great reason, and that is because there is free trade in money. The capital of England and Holland fix a rate here as they do all over the world at all times lower than the natural rate. It is no disproof that you see men actually changing their tangible into credit property. Those disabled for business, those having more than they can manage, and the retiring rich man, will take the certainty of income and freedom from loss pertaining to credit property, though it pay them only two per cent. Now, your subsidy only operates on the home sources of supply, and will not tend to reduce the actual rate here, but only the rate which would exist if foreign capital could not compete; nay, not even that; it would not much in its operation on tangible property tend to reduce a rate high enough to induce business men to quit business and go to money-lending. A simple example will illustrate the effect of the foreign supply. Suppose Bessemer rails had a duty of $15.00, sold here for $45.00 as made by our rolling mills, and in England cheap enough so they could be shipped here for $30.00, except for duty. Now, take off that duty, make the trade in rails just as free as the trade in loanable capital has been. The price becomes $30.00. Suppose now you say, let us have rails for $20.00. We will give $10.00 bounty per ton to our home manufacturers, — would you get rails below $30.00? You could not get a rail at $29.99, any more than you can by this bounty to mortgage-lenders get a reduction of one-tenth per cent in their rates. Because the price was fixed in comparison with the profits of our home industry at $45.00, and home capital is not tempted into it at $29.99 by a bounty of $10.00.

The interest-rate had in 1881, from general causes, fallen two or three per cent below the rate of seven years prior. I think it needs no argument to prove that the cause of this was not a Massachusetts cause, that the income of tangible property here had not fallen so much as the interest-rate. Now if the income of tangible property was by some amount as much as the tax, say one and one-half per cent, above the interest rate, is it not clear that not a dollar's worth of it could be tempted to assume credit form and be lent a mill below it. Tangible property must also get a profit to induce a change. Suppose that profit be one-half per cent, would then any dollar of it be tempted to assume the credit form and be lent, if its profits were one per cent above the current interest rates, at a mill below the rates then prevailing? Take your own case to-day, gentlemen, how many of you who own farms or mills, or even houses which you rent at eight or ten per cent, are tempted to change them into credit capital and lend it at five per cent on mortgage or two and seven-eighths per cent to Boston, though you may escape your taxes?

You will assent at once to the proposition that the bounty offered by the Legislature of 1881 would tempt few if any of the holders of tangible property in Massachusetts. If a man were just becoming disabled or was rich enough to be almost ready to retire and enter the class holding credit property, his determination to sell might be slightly accelerated. But the amount to be gained to add to the supply of mortgage capital, and thereby reduce the rate by competition would be too slight to count. For these reasons vanishes fifteen hundred millions from the lists of the taxed capital of Massachusetts within the attraction of the bonus. It cannot be reached.

Turning now to *credit property*, I should expect some slight results from its influence. I can hardly see why money can be lent to Boston, subject to tax, fully two per cent less than money lent on mortgage, whether taxed or not. Formerly the difference was far less, though mortgage-loans were taxed. For it is property of similar kind easily passing from one investment to another. If the law has caused any reduction whatever it has come from the attraction of other credit capital. In all classes of credit property, however, there is a special necessity for its investment where it is, — its holders will counterbid to prevent change. Much of it is of such a nature that it is liable to be called for, and cannot be put in mortgages whence it cannot be quickly collected. Thus savings banks cannot safely invest beyond a certain percentage of their money in mortgages on penalty of failure, as in 1878, when they were compelled to call on the Legislature to save them from their engagements, and many failed. Here are one hundred and sixty millions that cannot be reached. The same is true of many trust funds. Banking capital is the basis of a business as distinctive from ordinary investment for interest income as it is from manufacturing, and the same reasons will prevent the bonus from affecting it which prevent it from tempting tangible property. I have stated what I considered the limitations on the attractions offered to credit capital of various kinds in the pamphlet given you at the opening. A little may be attracted, but not enough to meet

the demand which a slight reduction of mortgage interest-rate by the law would create, not enough by half to compensate the doubly-taxed debtor for the $1.06 tax per thousand which he has to pay towards this subsidy. It is no justification for the law if a few dollars can be tempted from one class of credit property into another when the class from which it is drawn is as much entitled to exemption as the other. If this law has caused any reduction whatever in the mortgage interest-rate, of which I am in doubt, it has caused it by dishonestly stealing the loans made to the poor on chattel property — the loans made on stocks of goods — and other loans, which are a charge on doubly-taxed property just as much as mortgage loans. It is only efficacious in robbing Peter to pay Paul.

The Demand.

Let us now consider the first tremendous obstacle. When you reduce the rate you increase the demand. Robert must not only fill the reservoir with his little pipe but the reservoir leaks. The demand at five and one half, the present average rate, indicates that four hundred and fifty millions can profitably be employed on mortgage to-day. There is room for eight hundred millions more without any more buildings. We have seen that the law can only work by reducing the rate on taxed loans one and one half per cent below what money is worth under taxed conditions. How much sugar can you sell at a cent a pound less than it is worth? When you put this five and one half per cent rate down to four, how many new mortgages will you have to provide capital for? If a farmer can now borrow at five and one half and make a tobacco crop, how many more can do it when they can borrow at four? If a man can borrow at five and one half and spin cotton, how many more mills will be built when you have reduced the rate to four? How much new real estate created to bear mortgages? You must remember the price of tobacco and cotton cloth are in no wise lessened by this local rate reduction. The general decline extends over the whole world. When the sun lowers Superior there is no controversy, — when you force down a square mile there is a struggle. One per cent off helps the Kentuckian to raise and sell his crop of tobacco cheaper also, and the Massachusetts raiser cannot underbid him. But this reduction you propose means that the Massachusetts raiser shall have one and one half per cent off his interest-rate, while the Kentuckian does not, — that the Lowell spinner shall have one and one half off, which no other American competitor can get. It means that every man in Massachusetts who holds a $20,000 house shall be able to borrow money on it and make $300 a year lending it on Vermont or New Hampshire mortgages, or in any equivalent loans. Though the land cannot leave as the boots did, yet its proceeds can, and that brings a like effect. You have no conception how much capital you will need to establish this discriminating advantage. The plethora of loanable capital crowds it into business. Manufactures are begun, new buildings erected here and elsewhere. Your manufacturers will tell you this sharp competition brings low margins. Now give them

all a clean one and one half per cent advantage over other States by enabling them to borrow money on mortgage one and one half per cent less than it is worth, and you shall have a demand for hundreds of millions — not one of which you can get except by "attracting" it out of the present taxed capital of Massachusetts. Your law creates no capital, brings none from abroad. When you can by your fiat confer these advantages on Massachusetts by letting somebody off from taxes, you shall lift yourself by your bootstraps over Park-street steeple.

And now you strike a second difficulty. We have seen that you could not reduce the rate, except by furnishing an additional supply of loanable capital. Lift the tax from all the present lenders of money on mortgage, and you will not reduce the rate a mill. You must find others to lend on mortgage at a cheaper rate, by your attracted supply. Of the four hundred and fifty millions lent on mortgage, a vast sum escaped through tax-dodging, owing to the inefficiency of your laws. No one can tell how much. You have heard the testimony of the assessors, to the point that savings-bank deposits were no more difficult to reach than mortgage loans. In 1861, when they were assessed, four-fifths escaped, all dodging except a few entitled to exemption. A like proportion of escaping mortgages would be two hundred millions. I have little doubt an efficient law like that of Vermont would bring out for taxation one hundred millions of mortgage loans more than you taxed in 1881. Now this capital is not limited, in its dodging capacity, to mortgage loans. It can dodge all the easier, if invested in Atchison or lent on mortgages in Vermont. You will no sooner begin to reduce your mortgage rate below the worth of money in equivalent loans, than you will begin to drive capital out of mortgages, — and you will have to pump in with your bonus enough to make up what will go out, — probably the full hundred millions, before you can get the rate the half way down necessary to leave the borrower as well off as he was before. Here is another case. A, who is a merchant, has sold B, a woollen manufacturer, ten thousand dollars' worth of wool. B has given him a mortgage on his mill to secure him. A paid no taxes on his mortgage loan under our offset laws, because he owed ten thousand dollars for his stock to Western wool-raisers. B is doubly taxed as much as anybody else, and when you cheapen mortgage rates to a point below what money is worth in equivalent loans, you reduce A's income that much. You drive him out of mortgages. He will find it better to pay up his Western creditors. In like manner you will drive out nearly all mortgage capital exempt by offsets. Another man is doomed. The assessors will sometimes reduce his dooming, on the plea that his estate is part in mortgages. But inasmuch as the doomed man makes no report, and pays the same taxes at all events, not much will remain in mortgages when you begin to reduce the interest-rate he can realize below the rate which he could realize by investing his money in equivalent loans, — say, in Vermont mortgages — before you will drive out his capital. Then there is another class, the foreign lenders, they get nothing of your bonus, you remember how that money-broker told you of the indignation of their agents because of your scheme to reduce the interest-rate, — he would not have told

you about them of course, if there were no such persons here. How long will their money stay in mortgages when you reduce their rate below the rates of Vermont and New Hampshire? They can cross the line in a few hours. What dollar is there in short of that mass of more than three hundred millions of capital which was in mortgages, and was not taxed in 1881, that will stay with you in that security after you reduce the rates of money lent on mortgage one and one half per cent below what it is worth in equivalent loans? Wait till you have satisfied the holders of this three hundred millions — checked with your supply the momentum of the stimulated demand, which bears against reduction with the force of hundreds of millions more, before you begin to think of reducing the rate with the little bonus of 1881. Arbitrary governments, having the power of life and death, have failed to reduce the price of bread, — you will not succeed better with the price of money.

And now, if the rates are not reduced, the gift of the State simply goes to the money-lender. As a plan to accomplish that, the law is intelligible. As a scheme to relieve the debtor by bearing the loan-market, the law is ridiculous.

Equalization of Profits.

There are various limitations under which the doctrine of the equalization of profits must operate. That certain classes of property have a higher rate of profit than others is indisputable. For example: corn in Massachusetts in 1845 stood at seventy cents per bushel, and butter at fifteen cents per pound. The prices had equalized themselves by adjustment in the same community, with the same producers, for generations. In 1880, owing to Western competition, corn had fallen to sixty cents, when butter had risen to twenty-five or thirty. Still the farmers raise corn. Some of the limitations to the application of the rule to this case seem to be: —

(*a*) When operative, it only operates to the extent permissible under the laws of supply and demand.

(*b*) It only operates when there is perfect freedom of change from the class discriminated against to the favored class. Subsidize the red-haired men on their productions, and the consumer shall get no benefit, for the class is restricted: it will always stay in the pockets of those who get it. It is hardly more possible for the black-haired men to change color and compete than for community generally to become money-lenders, and compete in lending on mortgage. The bounty stays with the moneyed classes.

(*c*) If the income of any business, money-lending for example, is depressed, exemption given to it tempts nobody into it until the bounty raises the profit enough to exceed the profit of other business. Not till the recipients therefore absorb enough of the bounty to do that is there any competition to reduce prices. The margin is always pocketed. With a given demand, and the usual supply, the natural price of a commodity is fixed by a gradual adjustment of the profits of all persons capable of entering the class producing it. Credit property kept for interest having a lower income than tangible, a bounty equal to the difference at-

tracts no competition except from the limited class whose condition induces a change, — a class not much increased by bids of moderate profit. The competing point is between the interest-rate, and the income of tangible property, near the latter. A bounty equal to this margin will be entirely pocketed by the lenders. If, now, a foreign supply has fixed a yet lower rate, a subsidy equal to the entire margin between it and the competing point will be pocketed by the lenders. Hence the exemption of credits, if amounting to enough, operates as a perpetual insurance, payable from the public purse to the moneyed classes against losses by cheap interest and foreign competition. No depression or fluctuation can affect their profits, as in case of other commodities. When a decline would stimulate a demand, a further advantage results to them, if the subsidy is not already completely absorbed. There was a call for precisely this insurance in 1881 by the moneyed classes. The rate is always lower here because of foreign supply. London fixes the rate in Boston and Peru alike. At the passage of this law, credit property was especially depressed. Thus the interest realizable from New-York Central sixes, which was in 1874 seven per cent, had declined to about four. The doubly-taxed borrower, for once, was in luck; for he saved enough from the reduction of his interest-rate to pay all his taxes, and leave half per cent in his pocket besides. Then it was that his misery began to be appreciated. Then it was that the capitalist came to the Green Room and sang the *doloroso* for the doubly-taxed borrower with such tender effect, that the General Court subsidized, not the sufferer, but the singer.

Another illustration under the principle I have cited will be instructive. Suppose, as I have stated, the price of corn in Massachusetts to be seventy cents in 1845. Suppose that a reduction in freightage via the Erie Canal of ten or twelve cents had reduced this price to sixty. That the General Court in 1846, enjoying cheap corn, and seeing corn still raised in Massachusetts, had concluded to reduce the price to fifty by a subsidy of ten cents a bushel, for every bushel raised on Massachusetts soil and consumed here, to be deducted from the farmers' taxes. Any one can see that the Western supply would not help a particle to reduce the rate below sixty. The subsidy can only tempt home producers. Now, if it had been offered the year before, in 1845, it could at most only have reduced the price to sixty. How, operating on the same producers, the same soil, and the same conditions, could it reduce the rate below sixty in 1846. It would not. Every mill of the subsidy would stay in the pockets of the producers, and they would consider themselves lucky that their losses, through Western competition, had been made good to them through the noble generosity of the General Court. If now an actual further decline in freightage charges of five cents a bushel had occurred after the passage of the subsidy act, reducing the price still further to fifty-five, and a chorus of farmers in your committee-room, backed by the agricultural press of the State, were pointing to that five cents decline as a great boon to the poor, secured by Massachusetts statesmanship, the parallel with our present condition would be nearly complete. I notice on the Boston tax-books two entries — a joint tax:

1881 . .	Personal property, $1,182,900;	tax,	$16,442 00
1882 . .	" " 55,200;	"	833 53

Now, I doubt not these gentlemen reduced their interest charges to the full amount of the average decline in the interest-rate, which was one quarter per cent — that is what business principles would require. I hear of them as men of sterling integrity, and the tax-book shows their honor. They would still have $12,000 net profit in their pockets if every mill of the decline came from the law. As no part capable of count was due to that cause their profits were $15,600 per annum. Verily the rich ought to join with unction in the prayer for long life to all those in authority.

(*d*) A bounty given to reduce the price of a commodity by tempting competition will generally be pocketed without result when three-fourths of the producers have at all times enjoyed the bounty indirectly, and the law only extends it to the remainder. Three-fourths of the lenders have enjoyed exemption by tax-dodging and otherwise. I notice a tendency to claim that, because the remaining fourth were honest and paid their taxes, they ought to be exempted also. We have seen that their tax was just. When we carefully consider the matter, I think we shall conclude that honesty is no good reason for abating a man's tax.

(*e*) A further sequence from the first proposition (*a*) is that a subsidy given to reduce the price of a commodity by tempting competition will always be pocketed without result, when the persons it can reach and move to become producers of it are few in number compared with the number necessary to supply the greatly increased demand caused by the reduced price. In theory, then, it seems clear

12. *That if any reduction whatever has been caused in the interest-rate by the law, it has been caused by bribing lenders to one class of doubly-taxed borrowers to withdraw their loans and give them to another.*

13. *That if any reduction whatever has been caused by the law, it has been and must continue to be exceedingly slight, not enough to equal the extra tax on the borrower to make up the subsidy. That it has, therefore, created more double taxation than it has compensated. That the net result, therefore, has been to fasten on the shoulders of the tax-payers, a privileged class, who, though best able of any in community to pay taxes, are hereafter to be furnished free roads, schools, public institutions, and governmental protection at the expense of the public.*

The Actual Decline.

If such be theory, what is experience?

You have had the testimony of a few brokers and money-lenders' agents. This is the substance of their story, is it not? "We say that the law has reduced the rates for money." Why do you think so? "Because we made loans for less directly afterward." Had not rates declined for a series of years before the law passed? "Yes." Have not rates on other securities declined since the law? "Yes." Then why do you think the later decline was due to the law? "That is our opinion." What better reason did they give for their faith?

To the opinion of this baker's dozen I oppose the records. They contain an abstract of the unbiased testimony of ten thousand men certified by the seal of their actual performance. Year by year the tax commissioner receives abstracts from the different registers including the data of all mortgages recorded during the first five months of the year. They represent new transactions, of course, and their average interest-rate is the mortgage interest-rate of Massachusetts for that period. I give you from him the averages of all mortgages where the interest-rate can be ascertained from the deed, combined with the tables for former years.

Registries.	1880 — Mortgages, January to June.		1882 — Mortgages, January to June.		1882 — Mortgages, January to June.		Decline in Three Years.
	Amount.	Average rate interest.	Amount.	Average rate interest.	Amount.	Average rate interest.	
Adams	$115,281	.06 266	$210,555	.05 974	$185,122	.05 948	.00.318
Barnstable	49,468	.06.466	46,324	.06 165	61,117	.06.330	.00 136
Boston	3,854,499	.05.924	7,060,236	.05.349	6,352,254	.05 261	.00 663
Cambridge	1,343,453	.06.321	1,641,017	.05.755	2,543,936	.05.818	.00 503
Dedham	542,654	.06.319	824,109	.05 899	724,442	.05 821	.00.498
Greenfield	121,604	.05 991	204,355	.05 516	172,076	.05 368	.00.623
Lawrence	271,514	.06.411	258,538	.06.081	399,481	.05 972	.00 439
Lowell	267,657	.06 099	678,433	.05 880	798,830	.05 951	.00.148
New Bedford	144,352	.06 414	128,036	.06.183	145,383	06 311	.00 103
Northampton	260,524	.06.194	502,382	.05.449	307,940	.05.513	.00.621
Pittsfield	168,858	.06.150	328,258	.05.900	262,832	.05.837	.00.322
Plymouth	226,152	.06 283	523,672	.06.031	437,433	.06 048	.00 235
Salem	838,920	.06.301	1,124,685	.06.036	1,150,176	06.020	.00.281
Springfield	1,046,501	.06 129	1,224,735	.05.677	1,182,408	05.526	.00.597
Worcester	1,017,455	.06 187	1,711,044	.05 890	1,775,488	.05 782	.00.405
	$10,268,302	.06.122	$16,466,365	.05,632	$16,439,518	.05.605	.00.517

That is to say, the decline in the interest-rate charged on mortgage-loans in three years, the last two of which were under the law, was $\frac{517}{1000}$ per cent, a little over one half per cent. The decline from 1882 to 1883 was $\frac{37}{1000}$, about $\frac{1}{27}$ of one per cent. Notice that in Barnstable, Cambridge, Lowell, New Bedford, Northampton, and Plymouth, the rate actually increased in 1882 under the influence of this potent reform. This table omits Great Barrington, the returns being not yet in. That reduces the rate of 1882 from 05.634 to 05.632, but makes no change in 1880. Unfortunately the rates were not taken for 1881, so we have in the figures the decline of one year before the law passed. I shall give you my reasons later for thinking that three fourths of the decline between 1880 and 1882, was in the year prior to the passage of the law; but if we allow half of the decline to the last year, we have as the total decline in mortgage interest-rates since the act was passed $\frac{272}{1000}$ of 1 per cent; that is between a quarter and a third of 1 per cent. The decline in Boston is a little more, — about $\frac{3}{8}$ per cent. Hence, you observed that the decline in the advertised rates of these brokers since before the law, was from $\frac{1}{4}$ to $\frac{1}{2}$. If they let money for less than they advertise, they are not such brokers as you and I know. Think of Jordan, Marsh, & Co. publishing prices higher than they intend to charge.

Now, then, the decline in Massachusetts mortgage-rates since 1880 is $\frac{517}{1000}$ per cent. How much of this is due to the general decline of the interest-rate on all securities, which is, of course, entirely independent of the law, and would have occurred under the old system? In fact the rate did fall under the old law more rapidly than under the new. Remember that the rate of interest, though affected by the time of the loan and other causes somewhat, is chiefly made up of two elements; namely, the risk, and the absolute value of the use of money. Thus, the risk raises the rate on loans without security often 5 per cent above the secured rate. The element of risk in mortgages, and other good securities, has not changed since 1880; the decline is in the absolute value of the use of money, — a common factor in all securities, and when it occurs in securities generally must occur in mortgages. I give you a table showing the decline, during the period we are considering, in the rates realizable from money invested in certain solid securities which are chosen because they are sound, and because, therefore, the change due to variation of risk is at its minimum. The rates taken are the average of the highest and lowest official market quotations during each of the first five months of the year quoted in the case of the first three securities of the table, and the quotations of State bonds are from the average prices during the same period, given at my request by the State treasurer, whose duties inform him exactly.

	Interest Rates.		1883.	Decline.
	1880.	1882.		
New York Central 6's of 1887 .	.04.620	.03 750	.03 920	.00.700
Boston and Albany 7's of 1892 .	.04.600	.03 790	04 000	.00.600
United States 4's after 1907 . .	.03.630	.02.870	.02.870	.00.760
Massachusetts 5's of 1894 . .	.03.940	.03.315	03 250	.00.690
Maine 6's of 1889 . . .	.04.190	.03.440	.03.250	.00 840
New Hampshire 6's . . .	.04.460	.03 830	.03.500	.00 960
Massachusetts mortgages . .	.06.122	.05.632	.05.605	.00 517

Mortgages decline less than any other security!

Of the rate itself mortgages declined 8 per cent, governments 20, Boston and Albany bonds 13 per cent. I quote the railroad bonds because they were in the tables a year ago, but it will be noticed that they have gone up a little. The time is so short they are not sought as a security. Mark how slight was the decline of this list during the last year compared with the two preceding. And the same was true of mortgages, indicating that they fall in exact sympathy with general rates, under causes as independent of the law as the tides are. How is it possible that the law had any thing to do with this reduction of the mortgage rate?

Let me now present to you another table, showing not the figures of some petty loan in West Newton, but the progressive decline in the rates on from $150,000,000 to $175,000,000. It is based, like the former, not upon the notions of persons whose anxiety to maintain this law clouds their discretion, but on official reports, on the actual transactions of the savings banks, as taken from the sworn returns of their officers in the published report. I have calculated, I trust with no error, the average interest-rate reported as received on savings-bank loans. In these totals some loans, of course, hold over from year to year at the old rates, waiting maturity. This represents, however, a constant factor, about the same each year. The general average of decline is shown, and that is what is important for our purpose. The first column indicates the amount of loans on which the rate is made up; the second, the amount of mortgages in that amount; the third, the average rate; the fourth, the progressive decline.

Year.	Total Amount.	Mortgage Amount Included.	Rate.	Decline.
1876 . . .	$172,009,000	$121,151,000	.06 819	–
1877 . . .	166,982,000	116,241,000	.06.461	.00 358
1878 . . .	136,469,000	96,505,000	.06 249	.00.212
1879 . . .	127,696,000	86,181,000	.05.995	.00.254
1880 . . .	131,840,000	82,432,000	.05 681	.00 314
1881 . . .	147,975,000	82,518,000	.05 349	.00 332
1882 . . .	162,510,000	86,129,000	.05.240	.00.109
1883 . . .	176,317,000	92,360,000	.05.207	.00 033

In this connection care must be taken to distinguish the years

of this table, which end Oct. 31, from those of the other, which have an average date of March 15. The tax was not removed from savings banks till May, 1882, one year later than from the more influential private lenders. That is another trace of the sweet singers of the double-taxation Iliad. The rate stated for 1881, therefore, covered only six months after the passage of the law (May 3), which was to take effect on the savings banks the next year, they paying taxes six months into the year after this average was taken. Gentlemen will remember that the savings banks did not exact the covenants to keep them free from taxes till March and April, 1882. The effect of the law then substantially all appears in the decline set against 1882, namely, 00.109 per cent. The whole reduction of the savings banks in their interest charges made in the two years together, beginning six months before their taxes were removed and ending a year and a half afterwards, is only one seventh of one per cent. This is just half the average annual reduction of the five single years preceding. That is to day, when these institutions fairly got under the potent influence of this great reform, which was to drive down their interest-rates and provide a solace for the doubly-taxed borrower, they reduced those rates just one-quarter as fast as they did before.

From the averages of this table, I concluded that three-fourths of the decline noted in the former table from 1880–1882, was probably in the first year, or before the law passed. Observe how closely the decline of 1883 marked in the registry table, 00.027, tallies with the decline, 00.033, in this table a stationary condition of the rate indicated also in the table of bonds.

It is said that the gilt-edged men who make large loans, were able to get, through the law, a greater discount from the average rate than the average represented by the general mortgage-table. Large transactions command lower rates, but not from the law. Here you strike in the savings banks, the class of safe loans, and find precisely the same laws prevailing. It is a dream, gentlemen.

We have seen the mortgage-rates decline year by year till this law passed. We have seen the decline of interest on all other loans side by side with mortgages since the law passed. We have seen that those years which the law could influence show no unusual decrease. Now who from that decline, which was slight at most, and which arose almost entirely from causes universally operative, shall detect the infinitesimal reduction this law has effected? What alembic shall distil and make visible to the naked eye the minute drop of your great subsidy which has trickled through the fingers of the lender and reached the doubly-taxed borrower? We have seen that this law has increased double taxation in Massachusetts, 00.106 per cent, just about ¾ of the entire reduction noticed in the savings-bank loans since the law reached them. Deducting the decline due to general causes from this amount, or from the amount seen in the tax commissioners' tables, and who can hesitate an instant in the belief that this law has absolutely left a net balance of increase in double taxation.

There is another fact in the savings-bank reports which I wish you particularly to remark. The savings banks had a declining

interest-rate. Yet in 1883, the first year when they got the full benefits of exemption — notwithstanding they lent money at less than ever before, yet the average dividends of all the savings banks in the State went up from 03.93 per cent in 1880, 04.00 in 1881, 03.97 in 1882, to 04.09 in 1883. What windfall came to them which enabled them to make up all their losses from the declining rate, and show a handsome gain in their dividends?

Public officers must bear some burdens. At the risk, therefore, that the scribes who write up this law shall classify the bank commissioners with the wicked assessors who know no reform I must make one excerpt from their report of 1883:

"Although the rates of interest have ruled low, and it has been difficult to make profitable investments of their accumulating deposits, still the relief afforded them by the modification of the laws for taxation has enabled them to increase the amount of the dividends to their depositors."

Now the savings banks are money-lenders, and if the subsidy they got by tax exemption went to the doubly-taxed borrowers, how in the world could they make dividends of it to their depositors?

I do not wish to comment on the evidence in behalf of the law. A fair sample is the statement of a Mr. Williams, who said, if I have not been misinformed, that when the law passed his mortgages were at 7, and the moment it passed he could get money of the savings banks and others at $4\frac{1}{2}$ and 5 per cent. This is 2 to $2\frac{1}{2}$ less, call it $2\frac{1}{4}$ per cent off. Mr. Nowell did about as well, and most of the witnesses got from 1 to $1\frac{1}{2}$ off. Now the savings banks did not get their exemption till the next year. And when they did get it it was only $\frac{3}{4}$ per cent. That is to say, Mr, Williams was able to persuade a savings-bank man to throw off, a year ahead, three times as much on account of his exemption as he ever expected to get by it. It was a rare exhibition of financial skill on the part of Mr. Williams. The fools that General Walker represented were not supposed to give their customers more than they got. But such savings-bank men as these witnesses dealt with are monumental fools, and ought to be replaced from this body of men who have skill enough to get 1 per cent discount out of a $\frac{3}{4}$ per cent exemption which the savings banks generally divide to their depositors.

I think, gentlemen, you can see the philosophy of this evidence. Rates never go down by the insensible degrees which these averages indicate. They drop half per cent or one per cent, and more at one than half, at a time — to one man this month, another next, and so on. Thus of $36,000,000 of savings-bank loans passing down from rates of 7 per cent and above, in 1876, $6,000,000 fell into the $6\frac{1}{2}$ rate, $16,000,000 into the 6, $2,000,000 into the $5\frac{1}{2}$, $9,000,000 into the 5, $1,000,000 into the $4\frac{1}{2}$, $2,000,000 into the 4, and only trifles into intervening notches. I have myself known men to replace a 7 per cent loan with a 5. But it did not indicate a drop of 2 per cent in the interest-rate that day. The borrower had paid 7 when he ought to have got his loan for $6\frac{1}{2}$, 6, $5\frac{1}{2}$. The general average of ten thousand of these transactions is the inter-

est-rate. This law required the lender to secure his subsidy by requiring a covenant from his debtor to pay all taxes on the land and leave him to escape on his note. He doubtless strained every nerve to keep up his rate till he could make the drop which was inevitable the excuse for requiring the covenant. Possibly now and then a man went a shade below the market, recouping his loss by withholding his next drop. There was no saving to the borrower in that. It does not show in the tables, for it was equalized before the next reckoning. There are honest men who thought, as they signed the paper and took the $\frac{1}{2}$ per cent off, that it was something they owed to the law. It was only one of the drops in the rate, which had occurred time and again before, which our figures prove reduced the rate no more than usual, and which, therefore, would invariably have occurred had the law remained as it was. The savings banks in 1876 loaned $109,000,000 as follows: $17,000,000 at 8 per cent, $14,000,000 at $7\frac{3}{10}$, $78,000,000 at 7. It all went down mostly by $\frac{1}{2}$ per cent drops, till in 1881 only 12 of the 109 millions remained in the rate figures. How many a time in these years this subsidy, or any other quack nostrum for reducing the interest-rate, might have been palmed off on the public as the cause of the decline; and your room would have been filled with crowds who would have sworn to its efficacy.

I desire to add but one proof more. In 1880 Vermont started in a system precisely the reverse of ours. An efficient law was enacted to bring out and tax credit and other property before escaping. It trebled the personal valuation, and could only have done it by assessing more than four times as many mortgage loans as before. I inquired with some care in that State, and found that, under their system, mortgage interest-rates declined precisely as it has under ours. Let me quote as an example a letter from Col. L. K. Fuller of the Estey Organ Company, an expert on taxation, and a man having one of the clearest heads in Vermont for such questions:

"BRATTLEBORO', March, 1884.

"*My Dear Sir*, — I have just returned from a seven weeks absence, and find your note. I suppose it is too late or I would collate facts for you. I will only say this much: that in 1877 the rate of interest was 6, 7, and 8 per cent, but about that time it was reduced here by the saving banks for local loans to 6 per cent, and for the last four years good loans have been made as low as 5 per cent. I know quite a number of nice loans at that rate, and even $4\frac{1}{2}$ per cent. Our stringent assessment law has not increased the rate of interest at all.

"Yours very truly,
"LEVI K. FULLER."

There is to-day no corresponding country county of Massachusetts with a cheaper mortgage-rate than the one of his residence. Whether you take off all taxes from mortgage-loans or tax them four times as much, the rate of interest declines in precisely the same degree.

I regret the necessity for imitating my adversaries, and relying in this one instance upon the evidence of opinion. Vermont has few statistics or I would quote them. But, thanks to the wisdom which gives us a record, no man can act in darkness on this ques-

tion. If, in admiration of British institutions, he chooses to aid in fastening a privileged plutocracy on the shoulders of Massachusetts industry, he can do so. But he must do it in the daylight of the figures.

The facts also, as well as theory, show

14. *That the law of 1881 has not operated to reduce the interest-rate, but only to subsidize money-lenders, and increase double taxation.*

Pleas for the Law. — The Trustee.

There are certain pleas and sophisms that tangle the feet of the unwary.

The lenders fancy it has force to picture a trustee under the old law, insisting upon 4½ per cent for somebody's trust-fund under all circumstances, whether rates are at one figure or another. If there is any tax on the money you must pay it, — if not, you can have it at 4½ all the same. I think I need not ask your sentiments about such a trustee. He would be very successful in loaning your money when the current rate was 7. He could do any amount of business. When it got below 6, your money would be suspended in the air, and you could never after get any thing for it while the rate was down. I am afraid that such a man would not last long as trustee. I do not think there are any such.

It is said, that a certain trustee in this city lent money, formerly, at 4½ per cent, with a provision in his contract that the borrower should pay his taxes on the note, and at 6 without that provision. I think this is a mistake, and that he simply offered to do so. That is my memory. But that is immaterial. Some persons cannot comprehend how it was that the borrower at 6 per cent did not pay this trustee's tax in his interest-rate besides his own on the land, and this case is very much referred to in proof that the borrower pays the lender's tax.

Had the borrower covenanted to pay the lender's pew-rent, he could doubtless have got the money at 4. Does it seem therefore, that borrowers really paid their lenders' pew-rent? And that, if the church-slips should be made free, they could continue to get the money at 4, unless general interest-rates had meantime fallen? The borrower paid the trustee's taxes in no different sense than Bates, the merchant, paid Jenkins's taxes on his farm. Bates bought each year the farmer's fall butter for $700, just as the borrower bought the use of the trustee's money. Jenkins's taxes were $100. Robbins, the collector, was Bates's neighbor. Finally, Jenkins told Bates if he would settle with Robbins every year he might have the butter $100 less. So Bates took the butter at $600, and paid Robbins the taxes, $100. Does it seem that Bates really paid Jenkins's taxes, or that, if the town should exempt Jenkins, Bates would get that butter for $600 again unless the price of butter had gone down? Do you believe that trustee lends to-day at 4½ per cent when he has no tax to pay, or if he does, that he does so for any other reason than because general interest-rates have fallen 1½ per cent?

The Borrowers' Control of the Subsidy.

Another inquires, Why cannot the borrower, when he makes his trade for the money, compel the lender to divide the exemption with him?

One is tempted to answer — you always say that the lender has his own way and makes the borrower pay all his taxes, with a serene contempt for the laws of political economy, until you begin to talk about the ability of the lender to pocket a subsidy of the tax. Then you come down from the clouds and misconstrue those laws to prove that the lender does *not* have his own way, but must give it over.

But this does not answer the question. The answer is: Because the law gives the exemption to the lender without limiting its grant to those who do in good faith pay their debtors' taxes. The laws of demand and supply decide who shall have the subsidy, and they control the will of the borrower under the principles I have cited. He can no more say he will have the benefit of that exemption than, in the case I supposed of an exemption of boot-makers to the extent of one dollar per pair, could the purchaser say he would have that dollar off from the price of the boots. Others would buy the boots, and he would go a long time bootless before he could get a cent off.

Is it desirable to be more definite and examine the application of one of the laws cited? When the exemption act passes the lender is lending and the borrower is borrowing for just what the money is worth. The borrower can afford the price, else he would not have paid it. Suppose the law tosses a subsidy to the two. If the laws of demand and supply did not preponderate to control, we should expect the subsidy to be equally divided. Without considering the surroundings, we should expect that the lender could pocket but half, and that in a general exemption of credits the borrower, who is taxed to make up the subsidy, would be left as well off precisely as he would be under our old system of taxing credits, — the lender only plundering community by a half tax. Given 100 lenders and 100 borrowers dealing at the market rate and on equal terms, without power to vary the number, the law tossing in 100 subsidies, each requiring a combination of a borrower and lender, and they might be equally divided. That is not this case. The subsidy is given to the lender. Any lender can have it who can find a borrower. Out of the hundred 75 had the subsidy before by dodging their taxes. They can continue to get it, for they can dodge on a thousand other investments. They are ready to put their money somewhere else before they will concede a cent to the borrowers. Of 100 borrowers, therefore, each one seeks a subsidy of 25 lenders who can give it. Four ask it of one. Is it not plain that the one can pocket $\frac{18}{20}$ of it, and that one of the four will accept the $\frac{1}{20}$ before he will be one of three who go off sorrowing with nothing?

So each of the laws I have cited apply. The borrower has no more control of the division of that subsidy, than the private lender has to secure his 4½ per cent and 1½ taxes when money is at 5.

Real Estate.

It is said the law will increase real estate by building. How? By cheapening the interest-rate to builders. That is the very point we are discussing. First prove that, and then talk about what it will do to real estate. Do not cook the hare till he is caught. But it is said real estate has increased. What is the inference? That interest has been cheapened on mortgage-loans. We have been claiming that ever since the inception of this discussion. It went down faster before the law passed than since; and the increase was greater the year before the law passed than last year, as the record shows. The fact that real estate has increased may indicate that interest-rates have decreased; but it has no tendency to prove that any part of the decline was due to this law. As a straw indicating just how this law is helping us by increasing our taxes, I notice an editorial in the "Journal" of March 7, stating, apparently from official sources, that,

"The business of the past year will not bring any gain in personal property, and we may look for a loss. There has not been a very large number of new buildings erected, and in many portions of the city real estate is less valuable than it was a year ago. If we should reach a total valuation of $690,000,000, and the estimates be permitted to remain as they were last evening, we shall have a rate of taxation exceeding sixteen dollars on a thousand, which exceeds the highest rate ever known."

In a parallel column I find from a Chicago paper, —

"The valuation of buildings, begun last month, is $1,781,000 against $501,720 for the corresponding month the year before."

And in another Boston paper of the same day a wail over the taxation of mortgages, etc., in Chicago.

Cost as an Element of the Price of Loans.

My able friend who has the misfortune to conduct the case upon the other side — I should dread to encounter him if he had even a narrow isthmus of truth in his cause to stand upon — has rested his argument on two propositions; and the first is, that the choice of an investment for money depends upon its net return — taxes out. This is another form of stating the doctrine of the equalization of profits, which I have considered. I assent, premising that the net return may be partly in other considerations than money, — for instance, in the advantages of an annuitant. But the principle is a general truth, and furnishes the reason why, when interest-rates on every other security fell after 1880 from five-eighths to about one per cent, the rates on mortgage-loans fell also, law or no law. From his second proposition that rates of interest on mortgage-loans in this State have been fixed by those who make returns to assessors and pay their taxes, that is, — by the private lenders, — I dissent. These men loaned about $75,000,000 out of $450,000,000. Now, if one-sixth could fix the rate for the whole, why not one-tenth or one-thousandth as well? Did this little *coterie* sit down and dictate what the mortgage-rate should be? They charged six per cent in 1880. What luck would they have had if they had concluded to take ten? How would they have kept

out the hundreds of millions which this rate would have attracted from England to get the four per cent profit? Money could earn only six with a margin for profit. How would they have held up the borrowers to pay ten? Suppose these private lenders had concluded to reduce to two. Where would they have found capital to have supplied the $500,000,000, of which the holders of real estate would have asked the loan, if only to lend over in other States at six? My friend cannot mean that the action of these men affected to any extent the rate. The laws of supply and demand control the price of interest like that of every other commodity, and the private lenders are only a waif on the tide. Does he not recall the testimony of Mr. Hyde, that, in thirty-three years of dealing in mortgages, he never heard a borrower inquire whether the lender paid taxes or not?

He can only refer to the principle that the element of cost affects the price of an article through its influence in checking the supply when the price is below the cost and a margin of profit: I do not deny that. But it only modifies it through the supply. You can buy a thousand-dollar house in a deserted mining-town for a dollar, a palace in Carthagena for a song. Men have been willing to pay a fortune for a gallon of water. This tax was an element of the cost, and had its slight weight in the world's supply. But it only affected the cost of keeping for loan a small part of the capital in Massachusetts, reaching nothing outside. It affected the price of loans only something more than the tax on Monroe farmers affects the price you would pay for Monroe corn.

The Tax-Dodger's Fictitious Exaction.

Perhaps the most ludicrous plea for the law, is the claim that the tax-dodger got an extra tax in his interest from the borrower, by pretending, or having it understood, that he paid a tax when he did not.

If so, what a profitable business tax-dodging must be. He certainly cheated the State out of $1\frac{1}{2}$ per cent; if also he got $1\frac{1}{2}$ per cent from the borrower, he made a net 3 per cent by his fraud. And the remedy proposed is as comical as the plea. It is that every other lender shall also be allowed to cheat the State out of taxes.

When a farmer who has perchance escaped taxes on his farm comes to Quincy Market with his eggs, and finds eggs selling at twenty cents, would anybody ask them at fifteen from him, if it should happen to be discovered that he had not paid his taxes? If his eggs were very fresh, would they not bring twenty, even if every man in the market should hear of the farmer's tax escape? So with the interest-rate, perhaps the safest man to tell that the lender has escaped from his taxes is the debtor. Would that change the price of interest, any more than if the debtor should hear that the lender had just inherited the money without earning it?

If assertion would answer they would have you believe that the tax-dodger did not compete to reduce rates They are of somewhat different clay from the rest of the money-lenders, and though three times as numerous, know how to pocket an exemption when they see it without competing at all. But when the taxed end of

this body of lenders, one-third as large, get the same exemption, unmindful of the tender consideration with which they have been treated by the tax-dodging end, they compete until, as the witnesses say, they drive down the illgotten gains of the tax-dodger, and two or three times as much more, and the tax-dodger and the foreigner are consumed with wrath. The simpletons have not the wit to lend enough of their money over in New Hampshire, or give it to the Western loan companies as the Connecticut insurance companies do, to keep down the supply, and then dodge on the new investment; but the heroic energy of the little end of the associated body of lenders has brought them all down, till, as the witnesses tell you, the tax-dodger is moving heaven and earth against the law while the tail of the British lion has been pinched and the wail of Lombard Street is heard in the land.

What is the basis of this assertion that the dodger does not compete? The loan of his commodity seems to be tolerably free of the fact in its history that it has escaped taxes. Does it not count in the supply? Do not those untaxed eggs go to satisfy a want in Quincy Market, or are they shadowy eggs that do not meet a demand? Has anybody told you of any psychological difference between the tax-dodger and the tax-payer, whereby the former was inclined not to underbid the latter when he saw he could make any thing by it? The borrower does not even fancy that his lender pays taxes. He does not care. Suppose he did? Does the fancied cost or the real cost to producers have its effect upon the supply? Do you not remember when whiskey was taxed $2.00 per gallon and sold for $1.67, because distillers dodged the tax? The illicit distiller had by competition reduced the price by the whole cost of the product and a part of the tax besides.

Mr. Quincy makes the only approach to an argument I have heard on the point. He tells you that the dodging lender knows he may be taxed and takes an insurance against it,—that is, he takes a premium and insures himself. He cannot get an insurance unless the market will let him. If taxes are paid from profits and not shifted, he cannot get an insurance. But suppose he does. What is an insurance premium? A small percentage laid aside to accumulate and meet a fire. What is an insurance against a tax? A small percentage laid aside, which is enough to accumulate and meet it when it comes. As the lender is very certain whether he will be taxed or not, it must be very slight. But the claim is that the lender takes the whole tax which he does not pay. Just as if a merchant exposed one day of the year would charge into the price of his goods the whole cost of burning them up once a year, when the fire comes only once in a century. Insurance only meets actual fires, just as insurance against this tax would only meet actual taxes; and we have considered elsewhere the effect of the actual tax on the rate.

I trust, gentlemen, that I need say nothing more to convince you that the borrowers have not, and cannot by any pumping process set up by the General Court, get in reduction of interest-rates the taxes which the dodger evaded. He did not get any more than his money was worth, and his transaction with the borrower was substantially a fair one. His real fraud was that he

did not pay from his profits the taxes due to the community. His wrongful gain lay in cheating the public, not the borrower. What his competition reduced the interest-rate, that he lost to the borrower out of his stealings from the State.

I desire, then, to call to your mind, with all the power I can command, the fact, that between tax-dodging and the exemption of 1881 there is no particle of difference in principle. The tax-dodger and the lender we have exempted are equally able to pay the tax. The exemption is simply legalized tax-dodging. It will not have so much effect in reducing interest-rates as tax-dodging had. What you give to the holders of a supply already in use counts nothing to reduce the price of interest. It is precisely as effective as an order to your treasurer to remit to each tax-dodger a check, without any requisition for its application. If there were one-fourth as many mortgage-loans in Massachusetts, the same demand, and three times as much more capital as a supply should be brought in by such a subsidy as you offer, then it would reduce mortgage interest-rates about the same as tax-dodging capital has, in precisely the same way. You cannot, as I have shown, attract such a proportionate supply. This law, therefore, has increased double taxation, extended tax-dodging to the rest of the mortgage-lenders, without securing to the community the inadvertent fruit of the prior fraud, and lifted the shield of Massachusetts over the tax-dodger.

The Cost of the Law. — The Private Lenders' Bonanza.

Let us measure this bonanza of the private lenders. How much do they make each year out of the law? How much do they give back and save net out of the tax-payers? Examine the assessors' "Aggregates." There were $62,500,000 of mortgage loans reported taxed in 1881. Very many of the towns did not report. The actual amount has been estimated at $75,000,000. Call it 70. If, now, the mortgage loans increased in the same ratio as the unsecured loans, the amount which would have borne tax in 1883 was $91,500,000. Suppose that too great. Take the average of the four columns of credit property counting as such stocks in other States. With the same increase, the mortgage loans would have been $84,500,000. From this deduct the $13,500,000, the amount yet reported as taxed. That is too much. Note each year it is a vanishing quantity; but it leaves $71,000,000. There were large amounts in doomed property which were sometimes classified, sometimes not. Some of these will be reported for exemption. The Supreme Judicial Court is now considering whether the law exempts all mortgages held by corporations and taxed with a franchise tax. Good judges say they are really exempt. How much in mortgages the great body of the corporations hold with their great capital I cannot tell. The joint-stock insurance companies alone hold $1,351,542. Call the total, at a low figure, $6,000,000. We have $77,000,000. Call it 75. I think no one can quarrel with that estimate. Take now the average tax-rate for 1882, which was $15.28, and at $75,000,000 of mortgage loans exempted to private lenders (lenders other than savings banks) we find the subsidy to

them to be $1,146,000 per annum drawn from the other tax-payers of Massachusetts. How much did they pocket? If our reasoning is correct they pocketed it substantially all. But suppose, for curiosity's sake, that we fly in the face of reason and the possibilities, and admit for the moment that the value of the use of money put into mortgages did not decline at all from general causes after the law passed, while money in every thing else did. I think there is no man fool enough in Massachusetts to say it went up. If this be true, that every mill of the decline was due to the law, how much did these private lenders then pocket? We found that the total decline in the mortgage-rate was .517 per cent since 1880. Our figures indicate that about three-fourths of the decline between 1880–82 was in the year before the law. Call it half. We have then a decline of .272 per cent in the rate since the law passed. These private lenders, therefore, have reduced their rates that much. This was all they allowed, general decline and all, and on $75,000,000 it was $204,000. They got $1,146,000, that is plain; they made up all their losses from decline in the value of money, and got $942,000 net besides. Count out all the decline since 1880 as due to the law, and they have pocketed $758,000. Now, will some one of the friends of this law tell me how much good this sum, almost a million a year, which even they must admit the private lenders have pocketed, did towards reducing double taxation? Or the further large amount that the savings banks divided?

The reduction of savings-bank taxes was part of the scheme. Mr. Holmes has told you how the quarter-per-cent exemption was passed as a twin measure, not to go through except this did. The savings-bank officers claimed that they could not compete with the private lenders, who were exempted to the amount of one and a half per cent, unless they were liberally dealt with. There is still a direct and effective discrimination against the savings banks, and in favor of the private lenders, to whose interest the law seems especially adjusted. Before its passage the private lender paid one and a half, the savings bank three-fourths. The lender could therefore profitably deposit with the savings bank, and pay the expenses of the institution, receiving as much as the money would net outside. Now, the savings bank must pay at least a third per cent tax on his deposit, while he escapes free. He therefore gets a profit of a third per cent, and the expenses of the institution besides to induce him to take out his loan and lend it himself in competition with the savings banks. Some time, when deposits are less plenty, the discrimination will be felt. Dealing with the savings-bank reduction as part of the scheme, we have the data to approximate its cost in 1883.

Taxation remitted to private lenders . . .	$1,146,000
Taxation remitted on 92,000,000 savings-bank mortgage-loans (½)	460,000
Taxation remitted on $2,500,000 in bank buildings .	12,000
Taxation remitted on $16,141,000 Massachusetts Hospital Life Insurance Company deposits . . .	75,000
Taxation remitted on $252,000,000 deposits (¼) .	630,000
	$2,323,000

From this is a drawback in the reduction of national bank taxes refunded to savings banks of $250,000, reducing the subsidy to $2,073,000 per annum. I think it is beyond the power of any man to prove by logic, or the probabilities, or by the official figures, the return of any part of it worth counting, either to the public or the doubly-taxed borrower.

There are various questions. Let me state one. Suppose the trustee of a railroad mortgage-bond issue should notify the various assessors on its route that he wished to be assessed as mortgagee on the real property of the railroad mortgaged. The railroad would, of course, reimburse him for any taxes he should pay, for they pay them now. Why could not he claim exemption on all the railroad bonds, perhaps without this form? If so, why does not the act exempt $40,000,000 or $50,000,000 more of property now taxed when the railroads choose to go through the form? But this is not all. You abandon the right to tax the dodger, and ratify his dodging. Adopt the Vermont law, and should it prove reasonably effective, you would add $100,000,000 to the amount of mortgages taxed in 1881. Should it prove as effective as in Vermont, credit property would pay half the taxes of Massachusetts. In this law you throw away the chance to tax $100,000,000 of tax-dodgers' mortgages, — the chance to draw $1,500,000 for the relief of business, besides your great actual subsidy to the lenders.

Nor is this all. We have already seen that you cannot stop here: you must directly exempt all credits based upon doubly-taxed property, or retrace your steps. Here is a list to begin upon, all which must be exempted before you reach a tangible property basis.

Money at interest unsecured	$48,497,016
Money at interest secured by mortgage . . .	13,770,219
Taxable deposits	22,450,578
Savings-bank deposits (*ex* bank stock and exempt).	132,284,256
Public stocks and securities	66,273,602
National Bank stock	96,203,011
Premium on bank stock	20,000,000
Stocks in corporations without the State . . .	71,673,793
Massachusetts Hospital Life Insurance Company .	9,361,742
Corporation surplus less estimated stock . .	100,000,000
Net value life-insurance policies	39,163,624
	$619,677,841

The bank stock must be included by reason of the United-States law, which forbids its taxation above other moneyed capital. These properties now pay over $6,000,000 taxes. Exempt it all, and, on the principles I have stated, substantially nothing will come of your exemption to the industries of Massachusetts, to the public, or to the doubly-taxed borrower: it must inevitably be a pure subsidy to the capitalist. Do you wish to continue, and give this $6,000,000 more, or retrace your steps, and return to the honest system of taxation under which Massachusetts, least favored of the States by nature, has become the richest of them all?

The Scheme to Build up the State by Attracting Tax-Dodgers.

There is one remarkable theory urged by some to sustain this law which I must barely notice. It is that if you will exempt all credit property, so many holders of it will find this an agreeable place to dodge their public obligations that their expenditures and the taxation of their houses will profit the community more than the remitted tax; that if you will set up a class of genteel loafers by paying their public expenses you will have so many of them that you can indirectly recoup your gifts. Aside from the meanness of the proposal to tempt from sister States those who owe them public contributions, and the low moral tone of those who would come, the scheme would be a failure. It is based on a misconception of the laws under which credit property accumulates. There are certain classes of business in which credit property is employed — banking for example — which go where the demand calls unless discriminated against. I do not understand this is referred to so much as the class held by persons for its interest income. This class of property is the fruit of business — of the use of real and tangible property. Business flourishes best where credit property pays its share of the taxes. It does not take much thinking to perceive that in a manufacturing town of Massachusetts the farmer and the cotton-spinner will pay better wages and do a better business if $1,000,000 Union Pacific bonds are taxed, than if they paid that $15,000 tax themselves. The same is true if the same amount of mortgage loans are taxed, for theory and fact teach us that their owners' taxes are paid out of his profits as much as the bond-holders. Business prospering, wealth will increase faster where credits are taxed. When the business man has acquired enough or becomes disabled, he sells his working property for a note. That is credit property made by his sale. As it increases faster here will it stay? The business man rarely retires and transforms his property into credits until he reaches maturity when his associations are fixed. It is not often that he will cut loose from friends and home to cheat the public. The percentage who will sneak into a foreign land to escape their obligation to contribute according to their ability to the Commonwealth that has fostered and protected them, is too insignificant to count. The scheme will fail.

Of a somewhat similar nature is the notion that by throwing all taxes on land so many more will come with chattels to occupy it, that the land-owner can charge all his extra taxes in additional rent. I cannot see wherein lies the attraction to the chattel-holder to come if what he saves in taxes he is to lose in rent. No particular man in addition to those now coming will come here to begin, unless he can net some advantage. The landlord cannot raise on such a man to compensate for the extra taxes the land pays and give him that advantage. If the taxes were shifted to the landlords some increase would accrue gradually in the business based upon chattels — for the holders of tangible chattels more readily change their domicile than the holders of credit property, except so far as they are detained by the adjustment of their business to mills and other real property. It would be a great deal wiser to exempt tangible chattels than bonds and mortgage loans. But every man that came must find his business improved by getting that remitted tax — hence the landlord could not get it also in rent. Should the scheme succeed there would be more buildings perhaps, but no better rents for those now built. The increase in number would not reduce the present landlord's taxes, for the new comers require just as great proportionate expenditure. Aggregation never reduces the tax-rate. Boston and the State pay three times the rate paid when the people were half as many in number. The direct tendency is to cheapen buildings. The project imposes a discriminating tax against costly buildings and architectural beauty. Perhaps this is one reason for the inferiority of the buildings in Philadelphia compared with those of New York and Boston. State-Street landlords may well study the demand for their fine buildings under such a system on the streets of Philadelphia.

The whole scheme is protection run mad. Protection proper is intended to protect the native against the foreigner. But this is a project to levy a tax from the industries connected with real property, and use it to build up the industries based on tangible chattel-capital, — to build up one class in the same State at the expense of the other.

The Barings in Boston could conduct their business with a fifth part of the real estate in total value which their annual tax would amount to. Their prices are fixed by rates outside Massachusetts, and would not be cheapened to our citizens. Where the landlords propose to recoup themselves for carrying their taxes, I fail to see.

Philadelphia and Boston Compared.

So much has been said about Philadelphia, by those who plead for the legalization of tax-dodging, that a brief comparison may be pardoned. In Pennsylvania, money at interest, and chattels are lightly taxed. In Philadelphia, credit-capital pays 4 mills State tax, — something more than our savings-bank deposits are taxed, — but only half what they formerly paid, and other chattels pay hardly any thing. Philadelphia is an old city, — larger than Boston a century ago, — and is the metropolis of the State having the greatest mineral wealth of any in the Union. With the vast resources of Pennsylvania in coal, iron, and petroleum, her water-power, her fertile soil and bland climate, her advantage in being 300 miles nearer the cotton supply, and in having her seaport 200 miles nearer the great grain centre at Chicago, — surely barren, inhospitable Massachusetts, and her leading city, can bear no comparison, in business and in wealth, to Pennsylvania and Philadelphia. Yet the official records show 229 people to the square mile in Massachusetts to 93 in Pennsylvania, and a manufacturing product of $353.95 per capita against $173.90. Let me cite some comparative statistics for 1882, including in money at interest the mortgage-loans taxed in Boston in 1881, and such other items as under Pennsylvania law is included in the term, as mortgages, money owing by solvent debtors, notes, bonds, contracts, and accounts bearing interest (except labor bills), money lent in other

States, etc. Real estate, since 1868, has been assessed at full value. Parts of the last credit item are duplicate of preceding items, but as they are less so in Boston, owing to the taxation separately of savings-bank deposits, the change of ratio is only unfair to Boston.

Credit Capital, 1882.	Boston.	Philadelphia.
Private bankers' capital	$5,439,589	$3,621,863
Private bankers' deposits	3,621,863	6,738,522
State banks and Trust Companies' capital	1,850,000	760,271
State banks and Trust Companies' deposits	11,803,403	37,026,174
Savings-bank deposits	65,912,931	29,767,052
National Bank capital	50,450,000	17,358,000
National Bank surplus	11,590,572	8,777,303
National Bank deposits	81,117,615	65,630,501
Money at interest, and taxed credits	109,600,000	45,863,769
	$341,385,973	$215,543,455
Population, 1880	362,839	847,170
Credit capital per capita	$941	$254
Taxable real estate per capita, 1882	1,255	643
Products of manufacturing per capita, 1880	360	383
Clearing-house exchanges per capita, 1882	9,759	3,298
Foreign trade, imports and exports per capita, 1882	369	84

Now, gentlemen, I do not attempt to claim that all this wonderful discrepancy in favor of Boston and Massachusetts is due to our ancient and honest system of taxation, wherein the rich, in theory at least, paid their share; but I do say that the comparison is the very last that should be cited to prove the advantages of shifting their taxes to the rest of the community. Observe how credit property accumulates, — not where it is exempted, but where it bears its share of the burdens. Talk of exempting money-lenders to get them in and tax their houses! Why, gentlemen, I presume your capitalists live in houses worth $20,000 or over, — if they do not they will not help you much — and I presume they do not occupy all the fine houses in Boston. But a tax laid at the 1882 rate on foreign stocks in Boston, and laid on the mass of Boston credit capital I have referred to, would build, buy, and pay for every dwelling-house in Boston worth $20,000, or over, every eight years, as the assessment-rolls show.

The Burden falls on Business and Labor.

Gentlemen, the class who are employed, and who are not able to pay taxes, the majority of your people, deserve some consideration at your hands. I am no believer in taxing any one class to subsidize another, — it is wrong in principle, evil in effect, — but if you must do it, I say your favor should fall in the home of the workman sooner than in the drawing-room of the aristocrat. I,

for one, protest against the establishment here of the system which in England oppresses labor, and reduces the common and agricultural laborers to a condition hardly superior to that from which the African race has just emerged in America. A part of that system this scheme is. The tax on capital held for interest, which we are proceeding to remove, is the tax least of all burdensome to business, for it is a tax on accumulation rather than on business property. Analyze the tax on Union Pacific bonds. What part of it is derived from wages, or tends to reduce business profits? It comes nine times out of ten from the man who has retired from business. We have seen that the tax on a mortgage note, added or removed, does not modify the interest charge, — it comes, all or nearly all, out of the holder's profits, — and stands in the same relation to business as the tax on the bond. Shift now the tax on the bond or note to land, mills, or tangible chattels. A.B. owns a mill making shoes. He must make them to compete with any other maker in America. When you place on his plant the tax remitted to the lender, how does he meet it? He can charge no penny more for his shoes, no more than the lender could charge his tax into his interest. He will at once reduce his wages roll, and divide the loss between himself and his workmen. Competition inflicted just such a loss of profits on our manufacturers from 1875 to 1880. The Bureau of Statistics tells you that it was divided in the ratio of 7.17 per cent from their profits, 4.35 per cent from the wages of the workmen. The laws of supply and demand equalize between employer and man this ratio — by depressing the industry and releasing help to compete on the one hand — by the necessity of the employer to keep his help from entering other employments and destroying his business, on the other. The division of the burden of cost of this law doubtless approximates to this other exaction; it is similar in effect, and to make up the $2,000,000 subsidy to lenders $800,000 per annum has been taken from the wage-earners of Massachusetts, $1,200,000 from business profits. Now, mark the difference between shifting this tax from the lender to the shoe manufacturer and *vice versa*. You may reduce the profits of either class so as to drive them out of the State without changing much the price of interest or of shoes. But when you drive out the money-lender it means one man gone, one house vacant. When you drive out the shoemaker it means a hundred men gone, a blighted village, a decaying metropolis.

This vicious law more completely enslaves labor and business for the advantage of interest capital than the law of Pennsylvania or of England. The one requires from Philadelphia moneyed capital a four-mill tax, and an inheritance tax; the other, thanks to Sir Robert Peel, imposes an income tax, and a legacy and a succession tax. It is reserved for Massachusetts reformers to begin with the scion of the money-lender in his cradle, to guard his home and his bonds with police, to furnish his advancing years with schools for his intellectual training, his maturity with highways for his carriage and parks for his pleasure, courts to construe his contracts, sheriffs to collect his claims, to extend over him through life the ægis of the State's protection; and, for it all, to ask of him no

manner of contribution, but to impose the total cost on the men who work on farms and in factories, and on those other men whose business enterprise maintains the greatness and prosperity of Massachusetts.

Can Massachusetts Industries endure it? — Comparative Taxation.

The next important question is, whether Massachusetts industries can endure this burden. We are now, as nearly as I can ascertain, the heaviest-taxed community in the world, and year by year the taxes are increased. I happen to have a friend who owns two mills of about equal capacity, one in Vermont, one here. His taxes are about $600 in Vermont, $2,800 here. The general statistics look hardly better. Let me make some comparisons.

Massachusetts Taxation.	1861.	1882.
By assessors	$7,600,501	$26,090,914
Bank tax	660,396	1,118,312
Insurance companies	5,700	274,507
Savings banks	By assessors	935,274
Corporations	"	2,121,923
Massachusetts Hospital Life Insurance Co.		50,805
State and towns liquor licenses		679,772
Sundry minor taxes, including peddlers' licenses	216	60,016
Per capita proportion of the U.S. customs	1,552,000	7,844,000
United States taxation on national banks		1,485,669
Internal revenue collections in Massachusetts,		2,743,456
Special assessments, Boston		92,094
	$9,818,813	$43,496,742
Population-basis of natural excess of births and of polls	1,243,566	1,921,719
Taxation per capita	$7.89	$22.64
Tax-rate by assessors — first item	8 24	15.28

The gross imperial revenue of the British Kingdom was £85,000,000. From this omit the post-office and telegraph receipts, except the net amount above cost of operation, — the miscellaneous receipts of which about half were official fees, — and the receipts from Suez Canal account, as these are omitted from the preceding table, and we shall arrive at an approximate comparative table of British taxation; viz.: —

Customs	£19,287,000
Excise	27,240,000
Stamps	12,260,000
Land Tax and House Duty	2,725,000
Income Tax	9,945,000
P.O. and Telegraph, less cost	2,948,658
Imperial Taxation	£74,405,658
Local Taxation, 1881	38,838,943
	£113,244,601

Population	35,289,950
Tax per capita at $4.84 per £	$15.53

Mr. Mulhall, the statistician, places the taxation per capita at $17.18, but as that includes postage and telegraph expenses, and miscellaneous, it is not fair for comparison. I am aware that there are sundry special assessments which are more fully stated in the general budget for Massachusetts than in the United Kingdom. There are taxes here you get no report of. But I think the fact is unquestionable that our taxation is 25 per cent higher, notwithstanding the British tax-payer is burdened to carry on Abyssinian wars, to maintain a great army and navy, to pay the interest on $3,750,000,000 of national debt, and to support royalty besides. On the basis of wealth the ratio is still greater against us.

Now I am not going to quarrel with the taxes — to say they are right or wrong. But one thing is certain, the manufacturer and farmer have got to pay them. They have got to pay them and compete with States where they do not exist. No matter to them from a business point of view how justifiable they are. They reduce the profit on a pair of shoes or a yard of cloth just as much if they tend to persuade obedience to every command of the decalogue. Massachusetts has in no respect the natural advantages of Pennsylvania, and the South can save the whole freightage as a discrimination to help her in spinning cotton. Reduction in the tariff has been effected, and more is promised. The Bureau of Statistics reports that the net profits of manufacturing declined from $66,670,000 on a gold basis in 1875 to $34,505,367 in 1880, nearly 50 per cent. Every manufacturer will tell you that competition has made his margin extremely small. With these conditions to control your decision, what is the part of the statesman? Is it to exempt still further the property which can bear taxes without detriment to business, — to extort $6,000,000 more from these interests, or to retrace your steps, and restore some part of the $2,000,000 of which the tax-payers are now annually plundered?

How Advocates and Petitioners for the Law are Made.

Gentlemen, the methods of securing influence to sustain this law show how demoralizing it is. I hold a mortgage-blank, purporting to be the blank of a great savings bank. It has a clause that the debtor, —

> "Shall pay all taxes and assessments to whomsoever levied or assessed, whether on the granted premises or on any interest therein, or on the debt secured hereby, and whether in the nature of taxes and assessments now in being or not."

The purpose plainly is to hold the debtor to pay the lender's taxes, besides his own, if the General Court should change the law. It was evidently drawn by an inartificial scrivener, and would probably fail. A lawyer would have told him that the Legislature would not tax in the hands of the bank either the granted premises, or any interest therein, or the debt. It would lay a tax on the bank's franchise. But the clause is used by private lenders, and, in that case, if not void for other cause, binds the debtor. Now, mark its purpose. The moment the question rises whether

this law shall be swept away, every debtor gets a printed circular, of which this is a sample. I have it from a woman to whom it was sent. The words "Dear Madam," printed, imply that it was the form for women: —

"Dear Madam, — In your mortgage recorded in the Suffolk Registry of Deeds, a clause to the following effect appears: —

"'And the said mortgagor agrees to pay all taxes and assessments on the mortgaged property, *and also upon the debt and note secured thereby.*'"

"The clause in italics has been inserted by lenders to secure them against all loss from a possible repeal of the present law exempting mortgage *notes* from taxation.

"It means this: If the present law is repealed and taxes are again put upon mortgage notes *you* will be obliged, under this clause, to pay those taxes, in addition to all taxes and interest that you now pay.

"Are you aware of the fact that a petition has been presented to the Legislature for the repeal of this present law which now protects you from double taxation? . . .

"You are, therefore, asked for the sake of your present and future interests to use what influence you can with individual members of the Legislature, especially with those that represent your own district, to prevent a return to double taxation, etc."

A direct appeal to the pocket to create a lobby. Was there ever a more rascally effort to prevent wholesome legislation? These lenders are not satisfied to pocket the subsidy. They like the loot, and propose to bind the debtors so that Doric Hall shall be filled with a lobby of widows and orphans, pleading that their creditors may be let off from paying their honest taxes. Here are the heroes that carry women on their backs, thinking that when the enemy sees them, chivalry will prevent the fire.

This is an institution created by you, starting an insurance company to save it from the General Court. Fancy the treasurer about to concede the $\frac{1}{7}$ per cent which these institutions have reduced their rates since the law took effect upon them, watching his $\frac{3}{4}$ per cent subsidy in the till, and well aware that the value of the use of his money had declined $\frac{1}{4}$ per cent besides, explaining to that widow that the institution really couldn't afford to drop that $\frac{1}{7}$ per cent, unless she would insure it against your imposition of future taxes! Does it not indicate an inordinate craving to relieve double taxation?

Is the contract of insurance against the General Court valid? Note the difference between the old clause requiring the debtor to keep his own property free from the lien of his own taxes, so it should remain a perfect security, and a covenant to keep the creditor's property good against any change of legislative policy. The draftsman of this law of 1881 evidently thought a special statute was necessary to allow the debtor even to contract to pay the taxes on the mortgagee's interest in his own land. The law avowed its purpose to compel the lender to pay the debtor's taxes. It was necessary to have that purpose shine from its whole face to catch the votes of the innocents who thought he would, or it never would pass. Hence, you see how adroitly and silently the right stole in under the eight words "*unless the parties have agreed otherwise in writing.*"

The direct effect of this new proviso is to organize a lobby who are under bonds to prevent your freedom of action on this question. That you have seen. The debtors signing it have agreed for a slight or no consideration to guarantee the subsidy of 1881. They have the same motive to block legislation that an insurance company which has received a dollar has to put out the fire which will cost them their hundred. They have made a bet of 100 to 1 that you would allow this law to stand.

Now the rule of law is that a contract which has a proximate tendency to cause improper influence on the Legislature is void. It is not necessary to prove any vicious purpose. Thus it is perfectly legitimate for a petitioner to employ counsel to present his case before the Legislature, and the courts will enforce his claim for payment. But the Supreme Court of Pennsylvania say that a prior contract for a contingent fee, payable only if successful, is void, even though there is no suspicion of wrong intent or improper conduct, because it tends to induce it. I do not say that this kind of insurance coupled with its plain effect is void, but I do say that since it would invalidate the whole mortgage as an entire agreement if void, if I had a client holding a second mortgage or a dower interest, the Supreme Judicial Court would have a chance to decide whether it was an immoral contract or not.

Of course I need not argue that sympathy for those who have in this manner bet against odds that the law will continue, has no place in deciding the policy of Massachusetts; but it is possible charity might call for some temporary relief. Chivalry does protect even the men who carry women on their backs to shield them — until the non-combatants can be removed.

Would Repeal Raise the Rate?

There are those who seek to incite fear by claiming that a repeal of the law would raise the interest-rate — that the creditors, for instance, will continue to exact these contracts to pay their taxes.

There is no danger that debtors will sign such contracts when they begin to cost something, without getting paid for it. Now they are a simple insurance, and, as there is no measure of the risk, probably no consideration is given for them. They will continue to be given without consideration when the tax is restored about as long as an insurance company would continue to issue policies for nothing when every policy meant a fire. If the borrower shall get his rate reduced enough by it, the contract is fair. Who could complain of that trustee lending at $4\frac{1}{2}$ and taxes when the current rate was 6?

There is not the slightest danger that the repeal of the law would cause any substantial increase of the rate of interest. As the law did not reduce it, neither can its abrogation raise it. The rate has not fallen more than in other States, and an attempt to raise it would soon attract a current of foreign capital. No person need fear difficulty in securing money on safe mortgages at present rates, under taxation, when men are glad to lend to municipalities and railroads at $3\frac{3}{8}$ to 4, in loans subject to taxation. The margin of difference between the securities is far greater than formerly

under taxation of both. Should there be a concerted effort to raise rates — to bull the market — it would doubtless result in the usual fortune of combinations to raise the prices of commodities by holding them back, and thereby reducing the supply. They end in a reduced consumption because of the higher price — an accumulating and disproportionately large supply which finally overflows and carries prices farther below the natural rate than the combination had raised them above. The Vermont experience settles this question also.

Excuses to Avoid Examination.

Gentlemen, there are pleas having no brains in them that often exert an inordinate influence. One man will say, "This law had an exhaustive discussion by the Legislature and a profound consideration by the press and people before it passed; I will not therefore disturb it."

An exhaustive examination indeed! What is the law? It is a law that the lender shall pay taxes on the debtor's land. That is what the Legislature of 1881 voted for. Does he do it? The promoters of the bill either knew it would fail of that effect or they did not know it. If they knew it, then it is plain they knew they could not carry the scheme on its merits, and if they were correct they carried it by indirection. If they did not know it the decision of the Legislature has no force, because it was made in ignorance. In either event it has not the slightest weight to determine your decision. Suppose the Legislature did vote for the law fully aware that it was not what it pretended to be. They had not the practical experience of its work which you have — the elaborate statistics of its iniquity. They had not your light.

Another says, "I do not believe in double taxation. I know the law does not work, but it was meant well, and I think I will sustain it till something better is found." That is to say, "I think the patient is sick. I think Dr. Sangrado's bolus is killing him, but the dose must continue till we find another, for Dr. Sangrado meant well."

Another claims the law should be tried longer because it has not had its effect. It has been on the statute-book almost three years. How long does it take a man when he is making a contract to decide whether he is going to reduce his interest-rate or not? Is the claim made that the lenders have not heard of the law? They found it out enough to exact written contracts from their debtors to protect them from it. The simpletons who did not know enough to reduce their interest-rate, got that part into their heads so thoroughly that not a man has heard or testified of a loan of money made since the law passed, where the lender failed to secure the covenant. Not $\frac{1}{200}$ part of the debtors in old mortgages have failed to care for their creditors' interests under the law, and those who have not knew a great deal more about the law than those who have. The claim for more time to try the law, although disbelieving in it on principle, is a compromise with a man's conscience when he knows he is doing wrong. It is saying, "I know your side is the side of the Lord, but I propose to enlist under the banner of the Devil a few years, because I think it will be a valuable experience."

Authority.

I think you will be struck with one significant fact. The more a man becomes a student of the law the more he comes to dislike it. The assessors are chosen by the people for their fairness and intelligence in the adjustment of the relative burdens of community. Nothing would be more agreeable to them than release from the duties of the old system, which required of them hard work, and exposed them to persistent hostility in the discovery and assessment of credit property. But they are compelled by their service to become students of the law we discuss, and they are consequently unanimous for its repeal. With others, the assessors of 56 towns are your petitioners. They are a board of experts, the pick of Massachusetts. Because of their opinions they become the target of the money-lenders and their scribes, who announce the astonishing proposition that ignorance is the nursery of reform. And at this time, when money and its influence so largely control the administration of public affairs, it is a good omen for Massachusetts to find the machinery of assessment in the hands of a set of men whom neither the intrigues of wealth nor the abuse of the press can influence in their loyalty to the truth.

If a legal thesis should be denied by the whole bar of the Commonwealth, if a course of sanitary treatment should be condemned by the entire medical profession, I think you would not hesitate long in saying that their opinion was entitled to attention. Not less in the practical operation of a tax law is the authority of the assessors.

If you look for further weight of opinion, I refer you to your predecessors of 1883 patiently studying this law during almost an entire session, and unanimously condemning it, one alone craving further trial; to the former tax-commissioner, Mr. Gleason, seventeen years at the head of your Tax Bureau, from whose formative mind has sprung almost your entire system of corporate taxation, which collects millions from property that would under former systems have escaped; to his able successor, to Mr. Hills, the principal assessor of Boston, whose life has been devoted to these questions, an authority wherever in America a tax question is discussed; to President Seelye of Amherst, familiar with the subject from his thorough study as commissioner in 1874; to that very able political economist, Professor Perry of Williams; the last two among your petitioners for the repeal of this law. These are the men who, if the advocates of this new-fangled scheme are to be credited, are banded together with the Massachusetts assessors to restore the ancient profits of the tax-dodger. This is no venal crowd, moved by the promptings of their pockets, no concourse of unfortunates driven like cattle by men whose dishonest stratagem has attached them to their service.

I am glad, too, that this is as yet no party question; that you not only find among those favoring this change Republican leaders like those I have named, but have, among your petitioners for repeal, Democrats like Bowerman and Grinnell, whose opinions agree, if I am not misinformed, with that of Gen. Butler himself.

Gentlemen, I trust you will pardon the fervor of this discussion.

But no man who examines the question can fail to see that the hour is a crisis for Massachusetts. By the specious plea of affording remedy to a fancied injustice, by kindling the public sympathy for the burdens of the poor, by a misconstruction of the laws of political economy which would discredit the ignorance of the fifteenth century, a system of gigantic robbery has been inaugurated, already extorting from the industries of Massachusetts $2,000,000 per annum, and, still insatiate, calling for $6,000,000 more. Reason shows this, and the record proves it. The extortion is not for any great public purpose, not for preserving the national life, not for conserving or extending the institutions which we have received as the splendid bequest of our fathers, but to cast the burdens of opulence on the industries which sustain the life of the State, and through them to recoup the expenses of the rich from the earnings of the poor.

For those who sustained the measure in its inception, misled by Crœsus pleading in the garb of poverty — for those who under the exactions of business, weary of reopening this question, shut their ears to the evidence — for those especially who come here believing in the law, failing to comprehend it and trusting without intelligent hope that it may yet accomplish the cure of a supposed evil, I have only words of respect. And the great body of the moneyed classes, the men who so nobly contributed to sustain the government in the civil war, they are not represented here in this apparent attempt to evade the just requisitions of the State which protects them. I find no fault with the money-lender who finding the subsidy at his hand accepts it under the rules of business as his right. It is better that no dollar should reach the intended beneficiary than that a law so fraught with evil should be continued on the statute-book by securing through the spasmodic operation of conscience a partial and imperfect accomplishment of its purpose.

But the money-lender who seeks for his own profit to perpetuate this law, seduced into betrayal of the great interests of the Commonwealth by the jingle of the subsidy in his pocket, and the unwhipt rascal, who behind bank counters or elsewhere, enjoying his loot, lies to widows and orphans and other unfortunate borrowers to secure through their improvidence, by pretences of reduction which he knows are due from the general decline, the covenants against change of this law that by them he may fill the Doric Hall with a lobby of the poor pleading for the continuance of his plunder — these belong to a far different class. The highwayman takes only what he wants for himself, he does not seek to rob a million for the proceeds of one of the thefts. And if he wrecks a train to get the watches of the passengers, yet the damage is limited and temporary. But these men for the petty benefit to their pockets would organize the plunder of generations. I denounce them as enemies of Massachusetts in comparison with whom in the court of conscience the common cut-purse shines as a model of civic virtue.

Gentlemen, the Puritans established a great and influential Commonwealth on this sterile soil under the essential principle that no privileged class should consume the earnings of the people at large, and that each should contribute to the State as his means allowed or as justice required.

The departure of their children from their wholesome theories of life is destroying the race. The sunset of their faith lights their path to the grave.

It is for you to say whether you will depart from that salutary rule, or accept from their hands as they go the torch which alone can light to greatness and prosperity the path of the new generation.

22334

END OF
TITLE